OECD Development Pathways

Multi-dimensional Review of the Western Balkans

FROM ANALYSIS TO ACTION



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Foreword

OECD Multidimensional Reviews (MDR) provide governments with concrete policy advice for their development strategies. They identify the main constraints to more equitable and sustainable growth, and propose priorities for policy intervention.

Albania, Bosnia and Herzegovina, Kosovo*, North Macedonia and Serbia participated in the Western Balkans MDR process, which produced two reports: *Assessing Opportunities and Constraints*, which covers the diagnostic phase and was published in June 2021, and the present report *From Analysis to Action*.[1]

The former provided a comprehensive analysis of the region across the five pillars of inclusive and sustainable development: people, prosperity, partnership and financing, peace and institutions, and planet. It identified nine strategic priorities shared across the region.

This second report focuses on the top three of these priorities: education and competencies, social cohesion, and a green recovery. The report combines in-depth analysis of policy options with the results of an extensive peer-learning process, based on the "Governmental Learning Spiral" methodology and involving actors from the private and public sectors, civil society, and academia. It aims at the co-creation of reforms that respond to the region's specific challenges and opportunities, and comes with guidance on implementation. Its suggestions and recommendations can serve as inputs for development strategies and plans, and inform the support provided by the region's many co-operation partners.

A multidisciplinary effort, this report combines economic, social, statistical, environmental and institutional expertise from across the OECD. It was prepared in close collaboration with the governments from the Western Balkans and with the financial support of the Swedish International Development Co-operation Agency.

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Opinion of the International Court of Justice on Kosovo's declaration of independence.

[1] In addition to the economies covered by this project, the Western Balkan region also includes Montenegro. Depending on data availability, Montenegro is included in the benchmarking analysis throughout the report and contained in calculated averages for the region.

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Multi-dimensional Reviews (MDR) are the result of a collaborative effort by the OECD and the economies under review. This report was carried out by the OECD Development Centre in collaboration with the OECD Directorate of Education and Skills (EDU). It benefited from excellent collaboration with the Governments in the Western Balkans.

The review was produced under the guidance of Ragnheiður Elín Árnadóttir, Director of the OECD Development Centre. It was led and co-ordinated by Jan Rieländer, Head of Country Diagnostics and Strategy, together with Gorazd Režonja, Policy Analyst. The report was drafted by Jan Rieländer, Juan de Laiglesia, Gorazd Režonja, Kerstin Schopohl, Håvard Halland (OECD Development Centre), Caitlyn Guthrie (OECD EDU), Marija Kuzmanović (OECD Centre for Entrepreneurship, SMEs, Regions and Cities), and Simon Field (External Consultant). Vera Leuner, Lucie Fourel, Kate Chalmers and Camille Auxepaules (OECD Development Centre) provided superb statistical, research and drafting support. Myriam Andrieux (OECD Development Centre) provided secretarial assistance. ENOVA Consultants and Engineers, and Centre for Energy, Environment and Resources (CENER21) provided background research, analytical and drafting inputs to the report.

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Editorial

The Western Balkans have come a long way. In the last couple of decades, most of the region's economies experienced dynamic growth and financial expansion. Leveraging on their well-educated labour force and international relations, the region's economies opened up and attracted significant investments. Income levels and living standards increased. The EU integration process helped drive democratisation, peace and institution building, creating new opportunities.

Today, however, as the previous volume of this report showed, deep-seated challenges remain. Bringing together the knowledge of a wide array of regional stakeholders with OECD expertise, this second volume explores policy options to tackle some of the most salient ones.

Investing more and better in education and competences emerges as the priority: not only does it come out on top of people's aspirations for quality of life, but it is also essential to unleash the region's creativity and help its firms leapfrog to new economic activities. What is more, education systems play a key role in building civic engagement skills, providing a foundation for responsible and community-minded citizens.

Next comes the strengthening of social cohesion. Many people still cannot find good employment. Life can be especially hard in rural areas. This strains citizens' ability to support each other. More employment opportunities and a high premium on quality social protection will help the region's economies adopt a more people-focused growth.

Finally, a cleaner environment – also among the top desires of citizens – is indispensable for boosting the quality of life and creating economic opportunities, including by attracting investors and trade partners. The region needs a comprehensive and credible vision for its low-carbon energy transition, as well as substantial investments in energy efficiency and renewable sources. Much can be done through regional collaboration, and the ongoing integration with the European Union can create further opportunities.

As the COVID-19 crisis continues to demand counter-cyclical responses, identifying strategic priorities is essential to ensure that resources are well spent. I hope that this regional Multi-dimensional Review, the first of its kind, and now complete in two volumes, can help policy makers in the Western Balkans and their partners deliver innovative solutions, and chart more inclusive and sustainable development pathways.



Ragnheiður Elín Árnadóttir
Director of the OECD Development Centre

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Abbreviations and acronyms

ACER	Agency for the Cooperation of Energy Regulators
AERS	Energy Agency of the Republic of Serbia
AIDA	Albanian Investment Development Agency
ALMP	active labour market policy
BAM	Bosnian mark (currency)
BFEE	Budgetary Fund for Energy Efficiency (Serbia)
BHEF	Business Higher Education Forum (USA)
CACM	capacity allocation and capacity management
CH4	methane
CHP	combined heat and power
CO_2	carbon dioxide (CO_2)
COP	Conference of the Parties (UNFCCC)
CPD	continuous professional development (for teachers)
CSO	civil society organisations
CSS	contributions for social services
CVT	continuing vocational training
EBRD	European Bank for Reconstruction and Development
ECEC	early childhood education and care
EED	Energy Efficiency Directive (EU)
EEF	Estonian Education Forum
EGD	European Green Deal
EIA	environmental impact assessment
EIB	European Investment Bank
ELD	Energy Labelling Directive (EU)
EMIS	education management information system (Albania)
EPBD	Energy Performance of Buildings Directive (EU)
EPEEF	Environmental Protection and Energy Efficiency Fund (Croatia)

ERE	Energy Regulatory Authority (Albania)
ESA	Employment Service Agency (North Macedonia)
ESCO	energy service company
ESCS	economic, social and cultural status (OECD, PISA)
ESM	Elektrani na Severna Makedonija (state-owned electricity company, North Macedonia)
EU	European Union
EU ETS	EU Emissions Trading System
EU-SILC	European Union Statistics on Income and Living Conditions
EV	electric vehicle
FBiH	Federation of Bosnia and Herzegovina
FDI	foreign direct investment
FiP	feed-in premia
FiT	feed-in tarrif
FRR	frequency restoration reserve (for electricity systems)
FSA	financial social assistance
FTE	full-time equivalent (employee)
GDP	gross domestic product
GEFF	Green Economy Financing Facility (EBRD)
GHG	greenhouse gas (emissions)
GHI	global horizontal irradiation
GJ	gigajoules
GMA	guaranteed minimum assistance
GW	gigawatt
GWh	gigawatt hours
ICT	information and communication technologies
IEA	International Energy Agency
IED	Industrial Emissions Directive (EU)
IEQE	Institute for Education Quality and Evaluation (Serbia)
IFI	International financial institutions
IMPG	Integrated Policy Management Group (Albania)
IPA	investment promotion agency
IPPC	integrated prevention and pollution control
ISO	independent system operator
IT	information technologies

ITE	initial teacher education
ITO	independent transmission operator
KEDS	Kosovo Distribution System Operator
KEEF	Kosovo Energy Efficiency Fund
KIESA	Kosovo Investment and Enterprise Support Agency
KOSTT	Kosovo Transmission, System and Market Operator
KPI	key performance indicator
ktoe	kilotonnes of oil equivalent
kW	kilowatt
kWh	Kilowatt hour
LCDS	Low Carbon Development Strategy (Serbia)
LCPD	Large Combustion Plants Directive
LEUE	Law on Efficient Use of Energy (Serbia)
LGBTI	lesbian, gay, bisexual, transgender and intersex
LPG	liquefied petroleum gas
LSG	local self-government
m^2	square metres
m^3	cubic metres
MANU	Macedonian Academy of Sciences and Arts
MEPS	minimum energy performance standards
MESP	Ministry of Environment and Spatial Planning (Kosovo)
MFK	Millennium Foundation Kosovo
MNE	multinational enterprise
MoESTD	Ministry of Education, Science and Technological Development (Serbia)
Mt	megatonne
Mtoe	million tonnes of oil equivalent
MW	megawatt
N_2O	nitrous oxide
NAES	National Agency of Employment and Skills (Albania)
NCB	National Coordinative Body (North Macedonia)
NCED	National Council of Economic Development of Kosovo
NCEP	National Energy and Climate Plan
NDC	Nationally Determined Contributions (Paris Climate Agreement)
NEC	National Economic Council (Albania)
NEEAP	National Energy Efficiency Action Plan

NEET	not in education, employment or training
NEMO	nominated electricity market operators
NERP	National Emissions Reduction Plan
NGO	non-governmental organisation
NPAA	National Programme for the Adoption of the Acquis Communautaire
NRA	national regulatory authority
NREAP	National Renewable Energy Action Plan
OECD	Organisation for Economic Co-operation and Development
PAL	Priorities for Adult Learning (OECD)
PES	public employment service
PISA	Programme for International Student Assessment
PM	particulate matter (PM2.5 = 2.5 micrograms)
PMI	projects of mutual interest
PPDM	psychology, pedagogy, didactics and methodology (teaching competencies)
PPP	purchasing power parity
PPP	public-private partnership
PV	photovoltaic (solar)
PWD	persons with disabilities
R&D	research and development
RED	Renewable Energy Directive (EU)
RRS	regional Roma survey
RS	Republika Srpska (Bosnia and Herzegovina)
SAA	skills assessment and anticipation
SAS	Social Assistance Scheme (Kosovo)
SCADA	supervisory control and data acquisition
SDGs	Sustainable Development Goals
SE	social enterprise
SEE CAO	Coordinated Auction Office in Southeast Europe
SEEPEX	Serbian Power Exchange
SERC	State Electricity Regulatory Commission (Bosnia and Herzegovina)
SEZ	special economic zone
SHPP	small hydropower plant
SLED	Support for Low-Emission Development in South Eastern Europe
SME	small- and medium-sized enterprises
SO_2	sulphur dioxide

SOE	state-owned enterprises
STEM	science, technology, engineering and mathematics
STEP	Skills Towards Employment and Productivity (Serbia)
T&D	transmission and distribution
TAP	Trans-Adriatic Pipeline
TPP	thermal power plant
TSO	transmission system operator
TWh	terawatt hours
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNFCCC	United Nations Framework Convention on Climate Change
VAT	value-added tax
VET	vocational education and training
WHO	World Health Organization
YLL	years of life lost

Executive summary

Three strategic priorities to create new opportunities and improve the quality of life in the Western Balkans

The Western Balkan economies – Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia – are at important crossroads on their development pathways. After significant achievements during their socio-economic transitions of the last decades, pressing challenges still remain. Faltering growth has stressed the urgency of finding new sources of productivity growth and new engines for economic and structural transformation. Underperforming labour markets leave many without attractive opportunities, pushing them to migrate outward. Inequalities and large pockets of poverty persist. High levels of air pollution, on the back of unsustainable energy mixes, degrade the quality of life. In order to make the region an attractive place to live, work and invest in, this report focuses on three strategic priorities.

Boosting education and competencies

Better education and more competencies are prerequisites to raising productivity, creating jobs, encouraging civic participation and making the region an attractive destination. This requires strong and modern education systems at all levels, and strategies for competencies beyond formal education. Pedagogical and curriculum reforms must focus on labour market competencies, while putting a premium on equity and performance, without jeopardising quality. Education should be combined with practical training; investment in new competencies; active creation of partnerships between firms, academia and other stakeholders; and the building of digital skills among students and adults. The diaspora should also be invited to support the transfer of skills. The report puts forward eleven policy recommendations:

- Invest in the quality of teaching to improve education outcomes.
- Unleash the potential of vocational education and training (VET) by increasing investment in infrastructure and technology, and linking the education track integrally with the private sector.
- Embrace digital technologies early, starting with schools, both by increasing access to digital technologies and equipping teachers with the necessary digital skills.
- Reinforce teaching skills and associate learning standards with clear outcomes, to make the most of competency-based curricula recently adopted across the region.
- Close the differences between advantaged and disadvantaged students.
- Increase the financing for education and improve the effectiveness of education spending.
- Strengthen the governance of education to improve the implementation and evaluation of education policies and build new partnerships, especially with the private sector.
- Increase access to and the quality of early childhood education and care (ECEC).
- Put a high premium on adult learning – both for upskilling and reskilling.

- Create linkages with foreign investors and attract strategic investment to maximise the spillovers of competencies and knowledge for local people and enterprises.
- Tap the capital but also the knowledge of large and well-educated diaspora.

Fostering social cohesion

Social cohesion is the bedrock of resilient societies. A socially cohesive society fosters the ability and willingness of its members to undertake collective action, and improve the societal well-being of all. This requires giving them the opportunity to participate; creating a sense of belonging and promoting trust among people; and fighting against exclusion and marginalisation. In societies with low social cohesion, disenfranchisement hinders collective action and the sharing of the benefits of progress. Many in the region do not find opportunities in the formal labour market, especially the long-term unemployed, women and citizens from disadvantaged groups; this poses a significant challenge to building cohesive societies. Labour market policies and social protection are two complementary, mutually reinforcing ways of fostering social cohesion. If they are adequately co-ordinated and resourced, they can offer support to those facing hardship and fulfil essential needs while also presenting pathways for socio-economic integration. The report puts forward six policy recommendations:

- Strengthen the coverage and effectiveness of active labour market programmes, with a focus on the long-term unemployed and youth with limited work experience.
- Provide more opportunities for people from vulnerable groups to participate in the labour market, including Roma and people with disabilities, in order to improve social mobility.
- Support women's integration into the labour market to fully leverage on their human capital and encourage entrepreneurship.
- Encourage people to participate in formal employment, reduce high social security contributions, especially for low wage earners, address the adequacy of benefits, and improve the effectiveness and attractiveness of social security systems.
- Increase the coverage and adequacy of social assistance.
- Improve the co-ordination and effectiveness of social services, such as elderly care, health care, education and others, for better user outcomes.

Ensuring a green recovery and energy transition

Cleaner air and more sustainable energy are also indispensable for making the region a more attractive place to live in, return to, and invest in. Global environmental emergencies such as climate change and biodiversity loss could cause social and economic damages far larger than those caused by COVID-19. To avoid this, Western Balkans governments should design economic recovery packages that support "building back better". This means triggering investments and societal changes that will both reduce the likelihood of future shocks and improve the resilience to those shocks when they do occur. The report puts forward four policy recommendations:

- Create a credible vision and lay the institutional foundation for the transition towards low-carbon energy.
- Boost renewables, integrate regional electricity markets and improve energy efficiency.
- Get prices right through socially responsible carbon pricing and the removal of subsidies.
- Mobilise financial resources for a green recovery.

1 Overview: Making the Western Balkans an attractive place to live, work and invest in

This chapter presents the key findings and recommendations of the second volume of the Multi-dimensional Review of the Western Balkans. It focuses on boosting education and competencies; fostering social cohesion; and ensuring a green recovery and energy transition. In view of the ongoing COVID-19 pandemic, the chapter also provides a brief analysis of the socio-economic impact of the crisis.

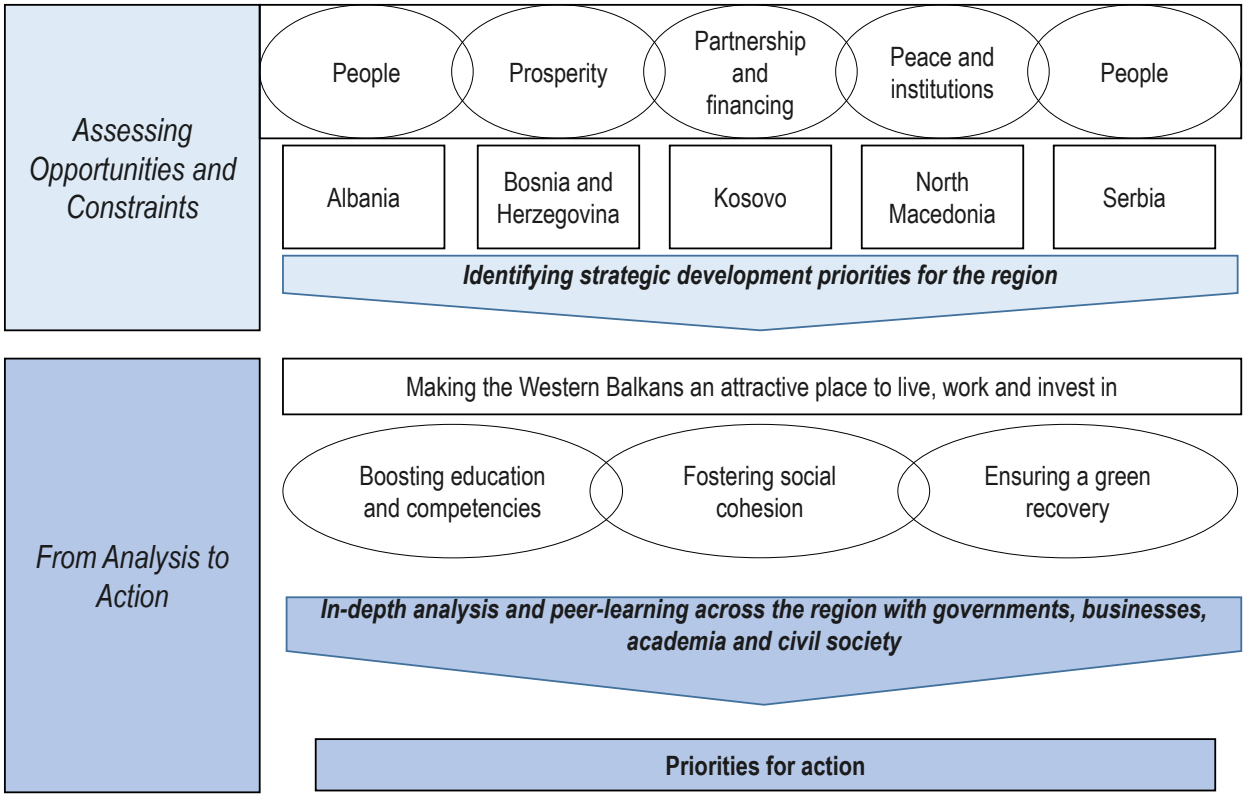
The Western Balkan economies are currently at an important crossroads in their development trajectory. In the decade leading up to the global financial crisis of 2008, most economies in the region experienced dynamic growth and financial sector expansion. Leveraging on their well-educated labour force and deep relationships with Europe and many parts of the world, the regional economies opened up and attracted significant investments. As a result, income increased and living standards improved. The European Union (EU) integration process has been a central driver of democratisation, peace and institution building, and has opened up many opportunities for the region. Yet the aftermath of the 2008 global financial crisis – and, recently, the COVID-19 pandemic – also revealed challenges that hinder the region's progress. Finding new sources of productivity growth and new engines for economic and structural transformation is an urgent task for all economies. Underperforming labour markets leave many citizens with no attractive opportunities, and inequalities and large pockets of poverty persist. Heavy dependence on coal as an energy source and other environmentally unstainable practices have resulted in high air pollution and other impacts that negatively affect the quality of life in the region.

This Multi-Dimensional Review (MDR) combines deep diagnostics by experts with peer-learning among key economic actors and policy makers to support the achievement of inclusive and sustainable development in the Western Balkan region as a whole and in its individual economies. Five economies – Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia – participated in the MDR process, which consisted of two phases (initial assessment phase, and peer-learning and solutions phase) and two reports. The first report, *Assessing Opportunities and Constraints* (OECD, 2021[1]) applied the "5P" diagnostic framework (people, prosperity, partnerships, planet and peace) of sustainable development, and was published in June 2021. The present report, *From Analysis to Action,* combines in-depth analysis of policy options with the results of an extensive peer-learning process (Box 1.1) across three strategic priorities: boosting education and competencies for economic and civic transformation; fostering social cohesion; and pursuing a green transition that reduces negative environmental impacts. It provides policy recommendations and suggestions for the development and/or implementation of development strategies at economy or regional level, as well as frameworks against which co-operation partners can devise their support (Figure 1.1).

Creating opportunities and providing a good quality of life are key to making the region an attractive place to live in, work in and invest in. Taken together, the three strategic priorities set the foundation for creating opportunities for everyone. In order to best cover the regional and economy-level challenges and opportunities, this report comprises 19 chapters. The first one, this regional overview, summarises key findings, highlights priority recommendations, and assesses the impacts of the COVID-19 pandemic. Each strategic priority is further developed in a dedicated section with a thematic regional chapter and economy-specific chapters for Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia.

Figure 1.1. Multi-dimensional review of the Western Balkans – Process schematic

From diagnostic to learning to action



Source: Authors' elaboration.

Box 1.1. The Multi-Dimensional Review of the Western Balkans – from Analysis to Action through peer-learning based on the Governmental Learning Spiral

The first ever OECD Multi-dimensional Review at a regional scale, the MDR of the Western Balkans combines economy- and region-level perspectives to propose policy action across the region. Focussing on the strategic priorities identified by initial diagnostics, peer-learning events in early 2021 convened experts from the participating economies, the OECD and other international experts to generate knowledge and ideas for solutions.

The peer-learning process followed the *governmental learning spiral* approach, with two overarching aims for each thematic area (education and competencies, social cohesion and a green recovery): to identify obstacles to progress, and to put forward key policy actions at the regional and economy-level on the most important and urgent issues. The peer-learning workshops also provided an opportunity to exchange policy experiences.

The MDR process brought together about 90 experts from the five Western Balkan economies (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia), representing various societal perspectives, including government institutions, civil society, academia and businesses. The results of the peer-learning workshops guided the three thematic parts of this publication – each of which is covered in a regional chapter of this publication. In turn, topic-specific suggestions for actions are presented in the individual economy chapters.

Source: Blindenbacher and Rielaender (forthcoming[2]), *How Learning in Politics Can Work*; Blindenbacher and Nashat (2010[3]), *The Black Box of Governmental Learning The Learning Spiral - A Concept to Organize Learning in Governments*, World Bank Group, Washington, DC, https://doi.org/10.1596/978-0-8213-8453-4.

Whenever relevant and subject to data availability, the Western Balkan economies are compared with three groups of benchmark economies identified among the members of the Development Centre of the Organisation for Economic Co-operation and Development (OECD): 1) a relevant subset of member countries of the OECD, including Costa Rica, the Czech Republic, Greece, the Slovak Republic, Slovenia and Turkey; 2) non-OECD countries that are members of the European Union with similar socio-economic characteristics, including Croatia and Romania; and 3) countries that are in some way comparable but not members of either organisation, including Kazakhstan, Morocco, the Philippines and Uruguay. The selection of benchmark economies is based on geographical proximity, similarities in historical contexts and economic structures, mutual partnerships and, as relevant, similar paths towards EU integration. The selection of non-OECD economies is based on similar economic and social challenges (such as high migration rates), shared history as transition economies, and similar development patterns. Such a broad set of benchmark economies brings additional perspectives to the Western Balkan economies and create valuable learning opportunities across selected policy dimensions. Criteria for selection are summarised in Table 1.1.

Table 1.1. OECD Development Centre member countries used as benchmark countries in the current report

	OECD	European Union	Other regions	Population, total (millions)	GDP (EUR billions)	GDP per capita (current USD)	Relevance for the Western Balkans
Czech Republic	✓	✓		10.7	246.5	23 102	Proximity, industrial base
Greece	✓	✓		10.7	209.9	19 583	Proximity, agro-food sector, tourism
Slovak Republic	✓	✓		5.7	105.4	19 329	Proximity, industrial base
Slovenia	✓	✓		2.1	53.7	25 739	Proximity, industrial base
Turkey	✓			83.4	754.4	9 042	Proximity, agro-food sector, export basket
Croatia		✓		4.1	60.4	14 853	Proximity, agro-food, tourism
Romania		✓		19.4	250.1	12 920	Proximity, industrial base
Costa Rica			✓	5.1	61.8	12 238	Agriculture, IT services, history of FDI attraction
Kazakhstan			✓	18.5	180.2	9 731	Agriculture, mining, SOEs
Morocco			✓	36.5	118.8	3 204	Migration and diaspora in the EU, labour market challenges, role of FDI
Philippines			✓	108.1	376.8	3 485	Migration as a key feature of the economic model
Uruguay			✓	3.5	56.1	16 190	Agriculture, textiles

Note: IT = information technology, FDI = foreign direct investment, SOEs = state-owned enterprises
Source: World Bank, (2021[4]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

1.1. Three strategic priorities for more opportunities and better quality of life in the Western Balkans

This report suggests three priority actions to create opportunities and improve the quality of life in the Western Balkans (Figure 1.2).

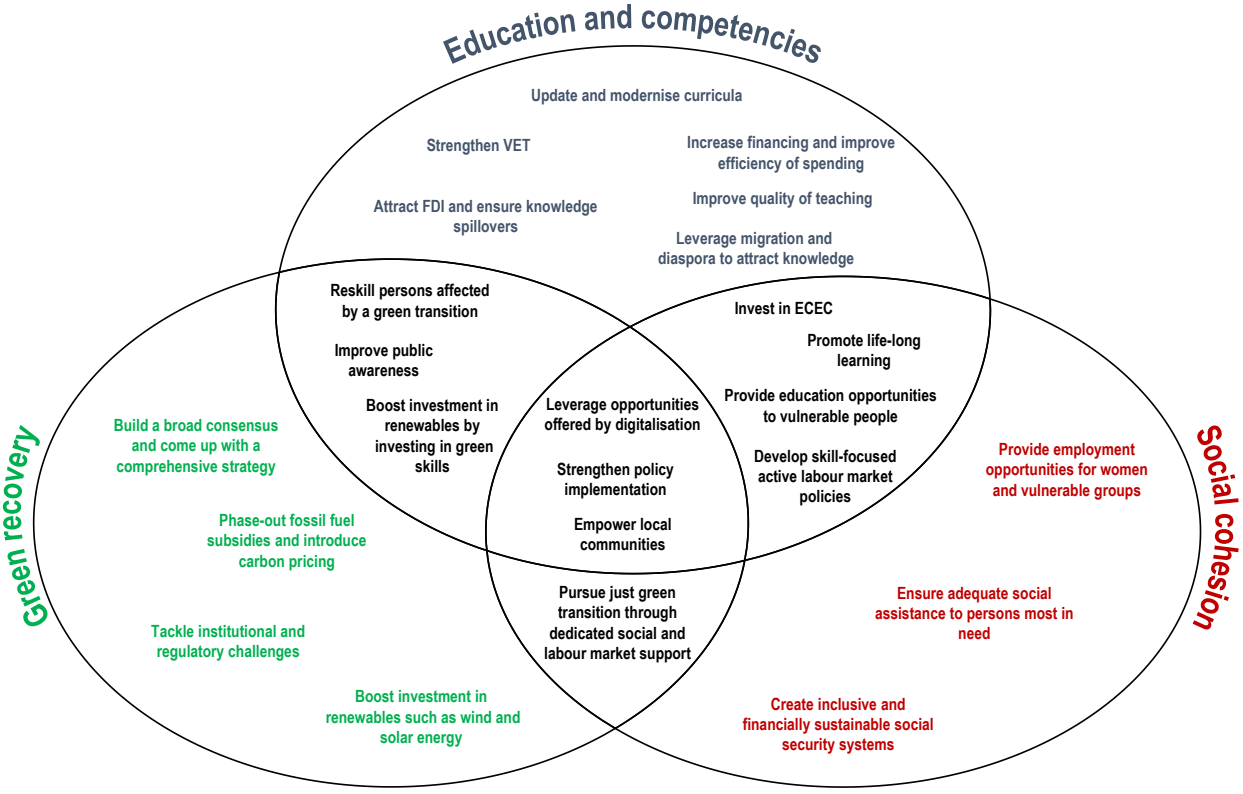
- **First, to ensure opportunity-focused growth, Western Balkan economies should prioritise education and competencies for economic transformation and civic participation**. Boosting education and competencies are shared regional priorities for raising productivity, creating jobs, encouraging civic participation and making the region an attractive destination for businesses and people. Across the region, citizens demand high quality education as a top component of quality of life. Quality education helps build competencies that are key to help the region unleash creativity and leapfrog to new economic activities. Education systems also play a key role in building civic engagement skills, providing a foundation for responsible and community-minded citizens. By

promoting trust among people, fighting exclusion and facilitating collective action in important areas (such as social protection), more effective mechanisms to boost education and competencies can ultimately reinforce democracy and contribute to social cohesion.

- **Second, strategies that promote people-focused growth can strengthen social cohesion.**[1] A very large share of citizens in the region continue to face economic hardship and feel excluded. Many cannot find good employment – especially in rural areas, where life can be hard. Lack of attractive employment opportunities can strain citizens' ability to support each other. Low levels of formal labour market participation render the mostly contribution-based social protection systems unsustainable and under-dimensioned. Local governments should be on the frontlines of addressing the education and competencies challenge; efforts are stalled, however, by a lack of capabilities in terms of organisation, incentives and funding.
- **Third, a green recovery, in which more sustainable energy delivers cleaner air, is indispensable for boosting the region's quality of life and economic opportunities**. The capital cities of Western Balkan economies are among the most polluted in Europe, largely because coal continues to dominate energy production. With the implementation of the European Green Deal and the Paris Agreement on climate change, demand for cleaner energy is accelerating and both trading partners and investors are becoming more selective. Energy reform may indeed come with substantial costs and social challenges, but the status quo is not an option, as the coming into effect of carbon pricing and other policy measures will dramatically increase the costs of the region's current coal- and lignite-based energy systems in the near to medium term. In sharp contrast, a strategic effort to radically reduce air pollution by phasing-out these sources would make the region healthier and more attractive.

In light of the COVID-19 pandemic and its huge social and economic implications, now is the time to find innovative solutions to create opportunities and improve quality of life. At time of writing, the COVID-19 situation continues to evolve both globally and locally; governments must continue to develop and implement responses in real time. The need to stimulate recovery makes strategic questions and relevant funding allocations more urgent, not least because given the large amount of resources required, missed opportunities will carry much higher costs than they would otherwise. The suggested policy priorities in this report can support the post-pandemic recovery by making recovery spending as strategically effective as possible.

Figure 1.2. Boosting education and competencies, fostering social cohesion, and ensuring a green recovery: Theme-specific and cross-cutting policy recommendations



1.1.1. Optimising returns to policy by focussing on synergies

Strengthening linkages between education policies, and social and labour market policies should be a high on any policy agenda. Providing high-quality and affordable early childhood education and care (ECEC) is an investment in the future from two perspectives. For one, access to ECEC contributes significantly to building the foundational skills of children, which are crucial at later stages of education. From a social-cohesion perspective, it can release valuable time for women, allowing them to invest in education, participate in employment or engage in entrepreneurial activities. Likewise, in any dynamic and transformative economy, people should have a chance to acquire new skills or to reskill throughout their lifetime. Creating synergies between life-long learning policies and active labour market policies will ramp up availability of skills in demand and unlock employment opportunities for many people, especially the young and long-term unemployed. This will foster greater social cohesion across different age groups while reducing the burden of social assistance expenditures. Finally, considering the large share of vulnerable groups in the region, including ethnic minorities and people with disabilities, creating opportunities by which they can access high quality education can vastly improve their chances for social integration and to prosper in the labour market.

Well co-ordinated and effective social and labour markets policies can cushion the potential socio-economic impacts of green recovery policies and can smooth out the clean energy transition. Reform of energy pricing, a priority for a green recovery in the Western Balkans, may lead to short- to medium-term increases in energy expenditures, with potentially significant impacts on vulnerable households. As such, energy pricing and other relevant policies should include social protection elements (e.g. using carbon pricing revenue to mitigate distributional implications for households, or to finance support for structural adjustment of workers and communities).

Likewise, education and green transition policies should be integrated to build green skills, re-skill persons affected by the green transition, increase public awareness, and boost investment in renewables. Closing down of the coal industry in the Western Balkans would result in substantial job losses; combining social assistance and re-skilling programmes can create new opportunities for affected persons. For example, miners and workers at thermal power plants (TPPs) can be reskilled for employment in thermal retrofitting programmes in the building sector, as well as other relevant jobs in construction and manufacturing. In relation to renewable energies, lack of public awareness of their benefits currently prevents renewable self-consumption from reaching its full potential. Education programmes can play an important role in raising awareness among energy consumers and change their behaviour. Finally, equipping young people with solid scientific knowledge and understanding of environmental issues is key to grow their knowledge to build sustainable cities, start sustainable businesses, and push the innovation frontier for green technologies.

1.1.2. Three enablers: Governance, digitalisation and local communities

In the end, progress depends on implementation and reliability. Governments in the Western Balkan have recently produced an impressive quantity and quality of legal texts and strategies. Yet translation into practice often remains slow. Inefficient government structures and lack of capacity for service delivery were identified in the Initial Assessment of the MDR as major constraints. State structures tend to be overly complex, often involving numerous ministries and agencies without clear lines of accountability. This delays decisions and has implications for cost, time and resources. Frequent political changes and insufficient protection against undue influence are other sources of delay and impediments. At the same, time citizens placed the rule of law, good governance and effective policy making very high in their visions of a good future during the Vision and Challenges 2030 workshops[2] undertaken as part the MDR initial assessment process. Reaching consensus regarding objectives and ensuring effective public delivery and implementation are core elements of good governance that can support the achievement of strategic priorities (OECD, 2021[1]).

Digitalisation can transform governments and improve public service delivery; its potential should be fully explored. Examples of early-adopting economies, such as Estonia, show that digitalisation can help re-engineer structures of the public administration for higher performance at lower cost. The Western Balkans economies have been making important progress in adopting digital technologies. Of the 193 nations listed on the UN EGDI5 (e-Government development) composite index, they rank in the mid-range: Serbia (58), Albania (59), North Macedonia (72) and Montenegro (75) (UN, 2020[5]). In 2019, North Macedonia and Serbia signed an agreement on mutual acceptance of electronic documents, a great example of digitalisation fostering regional integration (OECD, 2021[6]).

Local authorities need stronger capacities to tailor services to local needs. Across the Western Balkan region, local governments are key to the implementation and delivery of many government programmes and services (e.g. education, healthcare, social assistance, and water and waste services). Often, however, they do not fulfil their roles. Many municipalities with sizeable staff spend the bulk of their budgets on salaries. Benchmarking shows that services delivered are not in line with what is spent on delivery. Political patronage often plays an outsized role in hiring at the local level. In some economies, the incentives that govern the allocation of central funding to local governments lead to surplus hiring, instead of smart and efficient investment based on performance. While structures vary, all economies struggle in some way with delivery at the local level. Going forward, improving collection of population data is necessary to understanding the needs of people and local communities, and providing targeted services (OECD, 2021[1]).

1.2. Boosting education and competencies

Quality education ranked as a top priority in all economies during the Vision and Challenges 2030 workshops. While economic structures vary significantly, finding new sources of productivity growth and new engines for economic transformation is urgent for all. Good jobs are scarce and young people continue to emigrate. Boosting youth and workforce competencies can unlock new opportunities. The more unfavourable an economy's current wage-to-productivity ratio, the more urgent this task becomes. Kosovo faces the biggest hurdles in this area, but the range of challenges is similar in all economies, and differences in wage-to-productivity ratios are small.

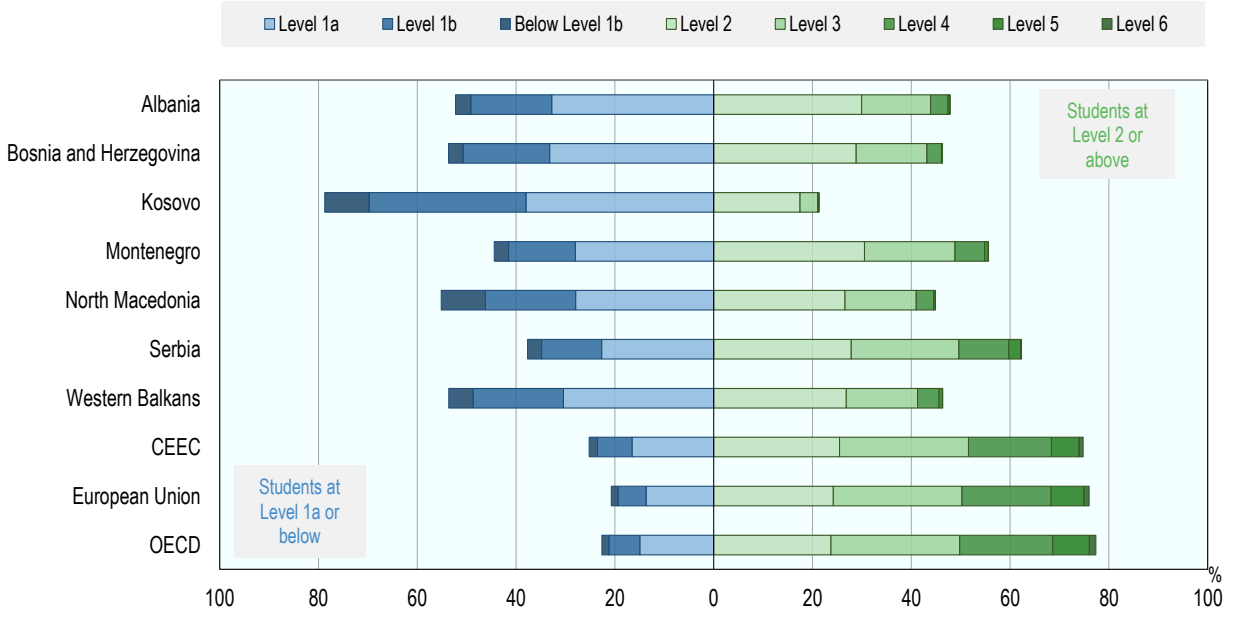
The Western Balkans economies have made great progress in education over the last decades. The introduction of competency-based curricula, participation in the Programme for International Student Assessment (PISA), development of new standards for teachers, and investments in vocational education and training (VET) have been some of the key reforms in the region.

Despite that progress, there remains a wide scope for improving the outcomes of formal education. International education and international student assessments of the Western Balkan economies reveal gaps in student learning outcomes. The 2018 OECD PISA results show that less than half (46%) of students in these school systems scored above baseline proficiency in reading (PISA Level 2 and above) compared with averages of three-quarters for OECD countries (77%) and EU countries (76%) (Figure 1.3).

Beyond formal education, many adults lack the competencies demanded on labour markets. Many enterprises in the region report hiring difficulties due to skills shortages and find that the education system does not impart the skills needed (World Bank, 2021[7]). Apart from Serbia and Montenegro, the share of individuals with basic or above basic digital skills is relatively low in comparison to EU benchmark economies (Figure 1.4 – Panel A). The share of people who have used basic arithmetic formulae in a spreadsheet is very small in some economies, indicating a lack of key computer skills, which are important requirements for many employers (Figure 1.4 – Panel B).

Figure 1.3. Proficiency levels of students in reading is trailing behind benchmark economies

PISA reading proficiency scales

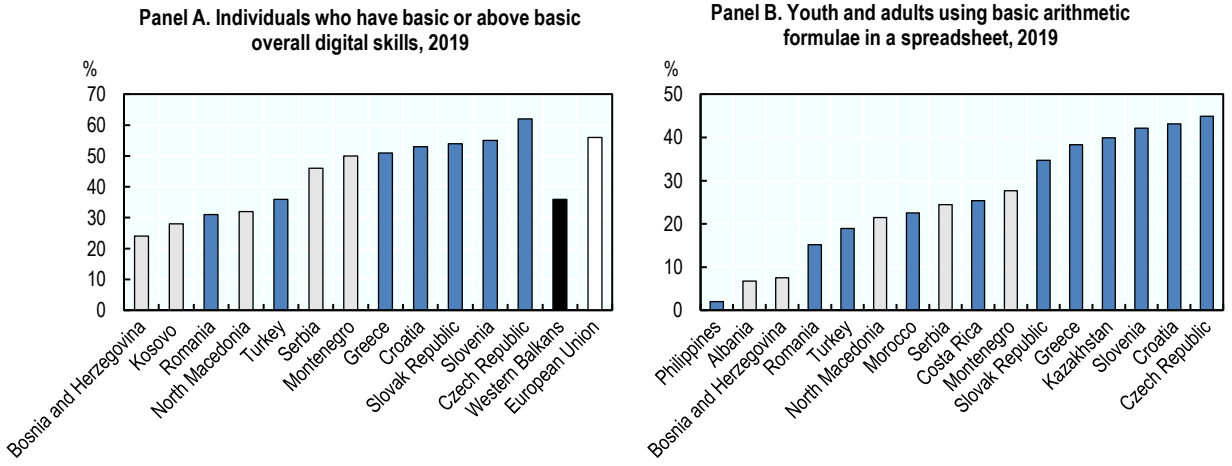


Source: OECD (2020[8]), Education in the Western Balkans: Findings from PISA, https://dx.doi.org/10.1787/764847ff-en.

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Figure 1.4. There is further scope to increase digital and technical computer skills in the Western Balkans

Individuals who have basic or above basic overall digital skills, 2019 (Panel A), and youth and adults using basic arithmetic formulae in a spreadsheet, 2019 (Panel B)



Source: Eurostat (2021[9]), Database, https://ec.europa.eu/eurostat/data/database; UNESCO (2020[10]), UIS Statistics, http://data.uis.unesco.org/.

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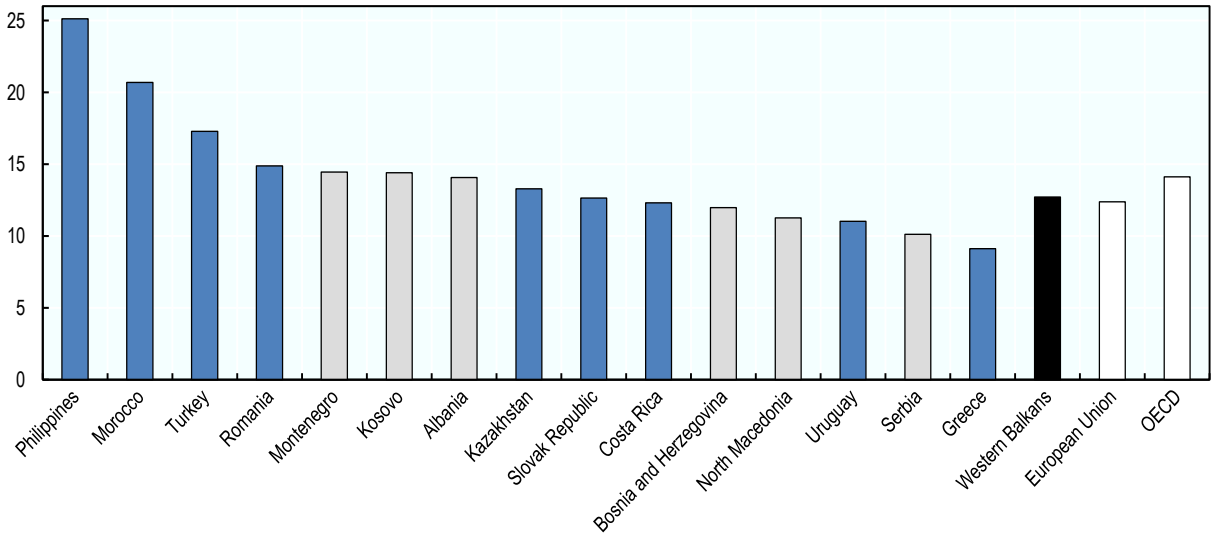
Boosting education and competencies requires a strong and modern education system at all levels as well as strategies for building competencies beyond formal education. Governments across the region should strengthen and modernise education systems at all levels through pedagogical and curriculum reform focusing on labour market competencies. In parallel, they should put a premium on equity and performance without jeopardising quality. Strategies for boosting competencies should combine and include: education with practical work-based training; promotion of investment focused on new competencies; proactive creation of partnerships between firms, academia and other stakeholders; and building digital skills among students and adults. The large Western Balkan diaspora should be considered a core asset in such strategies and used to create opportunities for transfer of skills.

1.2.1. Improving the quality and relevance of formal education

Investing in the quality of teaching is key to improving education outcomes. Despite a favourable pupil-teacher ratio overall (Figure 1.5), poor teacher selection criteria and lack of opportunities for professional development undermine teacher motivation, with negative effects on education outcomes. Improving teaching quality requires better implementation and use of standards to strengthen initial teacher education (ITE), as well as adequate support and incentives for continuous professional development (CPD) for teachers, including linking CPD to regular appraisals and career development.

Figure 1.5. Favourable pupil to teacher ratios are not reflected in education outcomes

Pupil-teacher ratios at the primary, secondary and upper secondary education levels



Sources: Kosovo Agency of Statistics (2021[11]), *Askdata* (database), https://askdata.rks-gov.net/PXWeb/pxweb/en/askdata/?rxid=4ccfde40-c9b5-47f9-9ad1-2f5370488312; World Bank (2021[4]),, *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

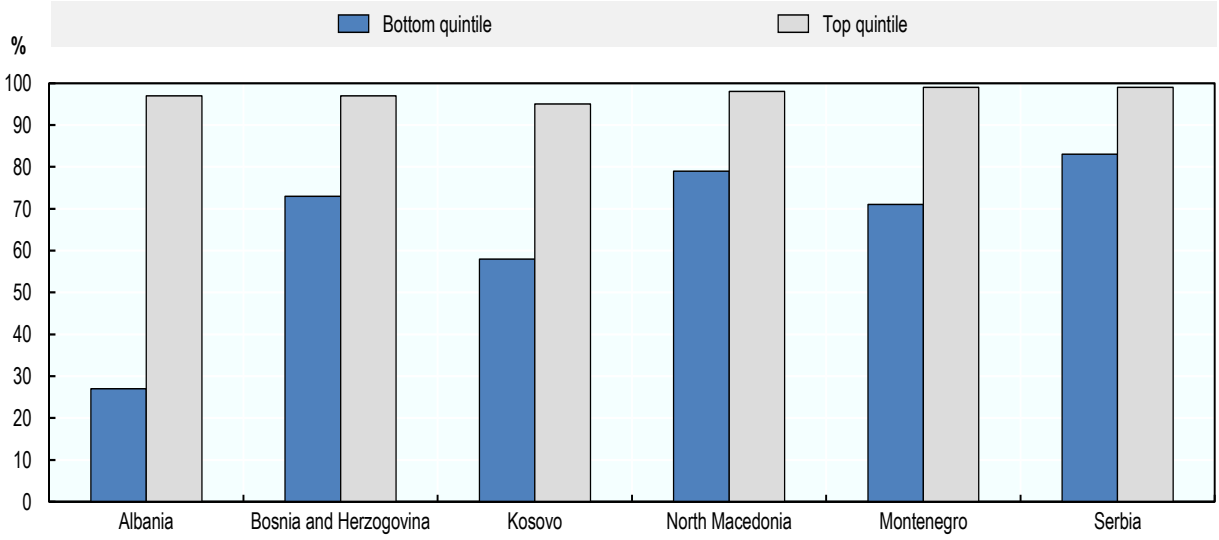
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To exploit the potential of VET, increase investment in infrastructure and technology, and ensure the education track is integrally linked with the private sector. A high quality VET system is critical for creating the job-ready skills and competencies that matter for economic development (Swiss Agency for Development and Cooperation, 2009[12]). Despite high enrolment rates in VET (except in Albania), education outcomes in most of Western Balkan economies are rather poor. In the most recent PISA, results for reading show that VET students scored 382 points, significantly below those enrolled in general education (435). The largest gap was in Serbia (85 points) and the narrowest in Albania (25 points) (OECD, 2020[8]). Improving the quality and relevance of VET by equipping students with modern labour market skills requires equipment, technology and other relevant teaching materials. Adapting curricula to labour market needs, recruiting teachers with practical experience and providing students with work-based learning are also vital, and call for intensified collaboration with the private sector.

Digital technologies can boost transformation across economies in the Western Balkans, but unleashing their full potential requires access to relevant digital technologies, and to teachers who have the necessary skills to use such technologies and to train others. The COVID-19 pandemic revealed major challenges in relation to digital technologies. Both the abrupt transition to remote learning following school closures and the looming challenges of school reopening and learning recovery will affect disadvantaged pupils with poor access to relevant technologies the most (Figure 1.6). This “shock” also highlighted longstanding weaknesses in digital learning capacity, in terms of home and school digital infrastructure, and in the capacity of teachers to use digital resources effectively. Data from PISA show that, in 2018, Western Balkan schools attended by 15-years-olds had just over 0.25 computers per pupil compared with an OECD average of over 0.8 (OECD, 2020[8]).

Figure 1.6. In most of the Western Balkan economies, students' background influences their access to digital technology

% of students reporting access to a home computer for schoolwork: Lowest and highest socio-economic (ESCS) quintiles, 2018



Source: World Bank (2020[13]), The Economic and Social Impact of COVID-19: Education, http://documents1.worldbank.org/curated/en/590751590682058272/pdf/The-Economic-and-Social-Impact-of-COVID-19-Education.pdf.

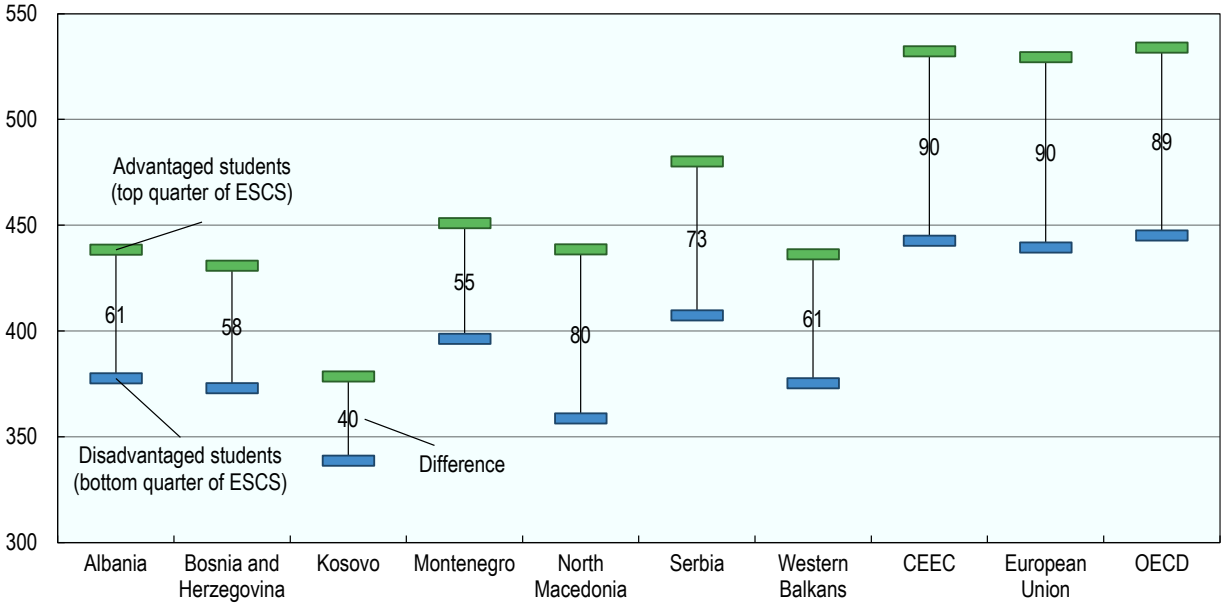
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To make the most of recently adopted competency-based curricula across the region, strong teaching skills and learning standards with clear outcomes are needed. Curricula are powerful levers for strengthening student performance and well-being, and for preparing students for their future jobs (OECD, 2020[14]). While most of the Western Balkan economies have developed core competency-based curricula, the common challenge is that teachers and schools lack the competencies to implement the curricula and adapt them to their needs. In addition, there are no guidelines to describe students' learning progression in a cycle. Based on external school evaluation results, the use of assessment to inform learning and adapt teaching to student needs is weak in almost half of basic education schools and two-thirds of upper secondary schools.

While Western Balkans economies are on par with OECD countries as regards equity in education outcomes, closing the differences between advantaged and disadvantaged students should remain a priority. Equity in education means that personal or social circumstances – such as gender, ethnic origin or family background – are not obstacles to achieving educational potential (fairness) and that all individuals achieve at least a basic minimum level of skills (inclusion). In the Western Balkans, education access and attainment need to be improved especially for the Roma and other minorities, the poor, rural children and children with special needs. Students from socio-economically disadvantaged backgrounds tend to perform worse than those from advantaged backgrounds (Figure 1.7).

Figure 1.7. Reading performance is influenced by students' background, although less than in the EU and OECD

Scores in reading performance of the top and bottom quartiles of the ESCS



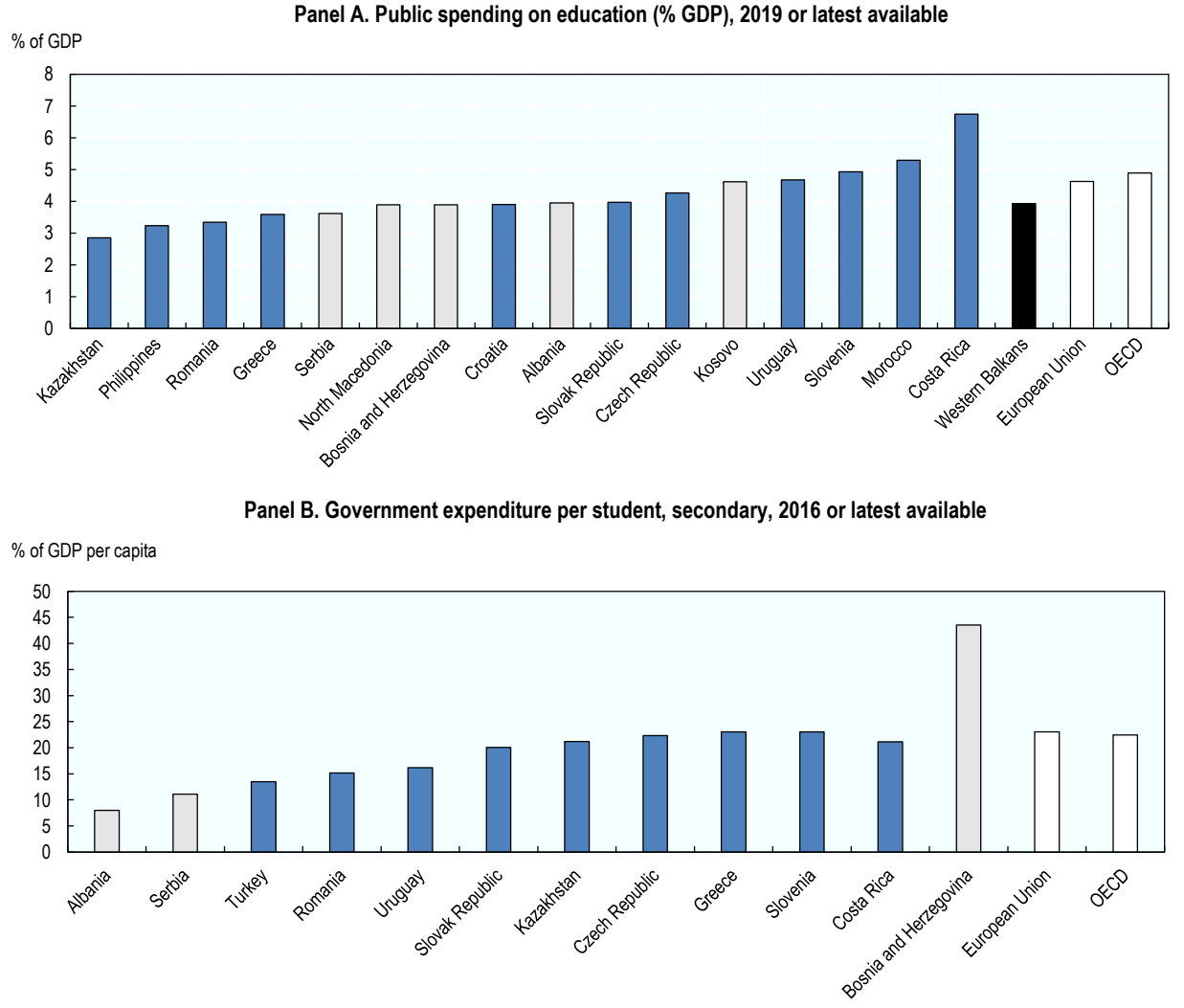
Source: OECD (2020[8]), PISA 2018 Database, https://dx.doi.org/10.1787/764847ff-en.

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Increasing the financing of education and improving the effectiveness of education spending are important levers for improving learning outcomes. In the Western Balkans, insufficient funding for education affects learning outcomes at all levels (Figure 1.8 – Panel A), particularly in ECEC and secondary education (including VET) (Figure 1.8 – Panel B). Even in economies where public spending on education as a share of gross domestic product (GDP) is on par with OECD countries, high staff costs (related to an excess number of teaching and non-teaching staff) crowd out spending on infrastructure, teaching materials, technology and equipment. Based on data available, spending on secondary education is comparatively very high in Bosnia and Herzegovina but low in Albania and Serbia (Figure 1.8 – Panel B). Low spending in Serbia strongly affects VET, which tends to attract a high share of students and is much more resource-intensive than general education. Despite nascent efforts to introduce a per-capita financing formula in some economies, the financing of schools remains based on inputs such as the number of classes and teachers.

Figure 1.8. The Western Balkan economies should increase and rebalance expenditures in education

Public spending on education (% of GDP), 2019 or latest available (Panel A), and government expenditure per student, secondary, 2016 or latest available



Note: Panel A - data for Morocco is from 2009, data for North Macedonia is from 2013, date for Bosnia and Herzegovina and Croatia are for 2017, data for Romania, Greece, Slovak Republic, Czech Republic, Slovenia, EU and OECD averages are for 2018, data for Albania, Kazakhstan, Philippines, Serbia and Uruguay are for 2019. Panel B - Data for Serbia is for 2015, data for Turkey, Romania, Slovak Republic, Kazakhstan, Czech Republic, Greece, Slovenia, Bosnia and Herzegovina, EU and OECD averages are for 2016, data for Albania and Uruguay are for 2017.
Source: World Bank (2021[4]), World Development Indicators, https://databank.worldbank.org/reports.aspx?source=world-development-indicators; Agency for Statistics of Bosnia and Herzegovina (2021[15]), Agency for Statistics of Bosnia and Herzegovina website, www.bhas.ba/?lang=en; Kosovo Agency of Statistics (2021[11]), *Askdata* (database), https://askdata.rks-gov.net/PXWeb/pxweb/en/askdata/?rxid=4ccfde40-c9b5-47f9-9ad1-2f5370488312; MAKStat (2021[16]), *MAKStat* (database), http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat__NadvoresnaTrgovija__KumulativniPod/?rxid=e70e8868-e6a5-4557-87cc-fc8b565e5da3.

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Strengthening the governance of education can improve the implementation and evaluation of education policies and contribute forming strong partnerships, especially with the private sector. Common education governance challenges in the Western Balkan economies include weak co-ordination (especially between central and local governments), inadequate data collection and limited use of data to monitor and evaluate education policy. In practice, systematic and effective engagement with the private sector and other relevant stakeholders (academia, civil society and other actors) is yet to be achieved.

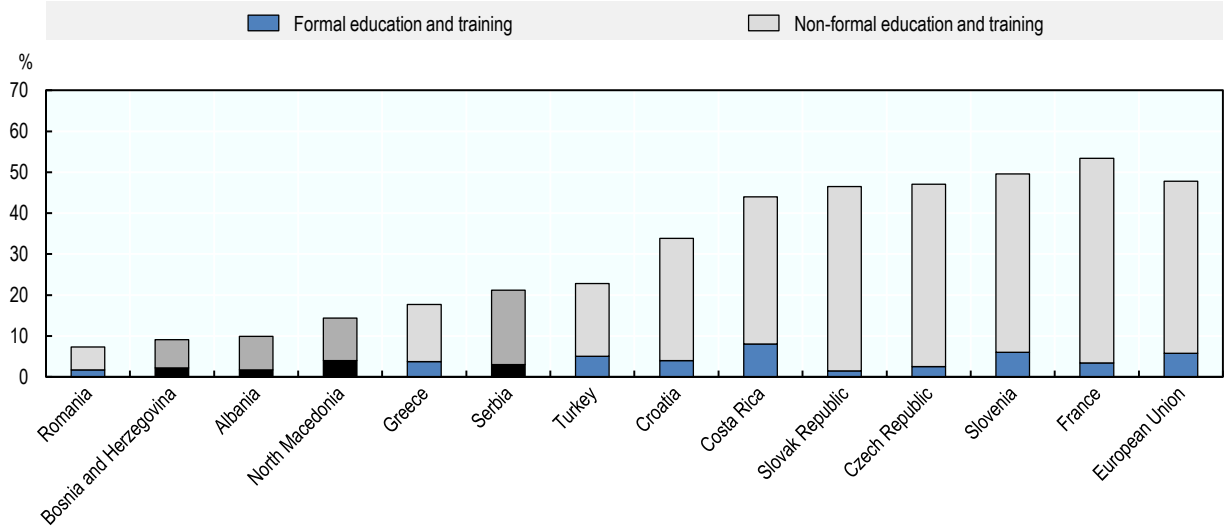
Regional economies should invest more in access to, and the quality of ECEC. Research shows that ECEC has significant benefits for children's development, learning and well-being, and can improve their cognitive abilities and socio-emotional development. Children who start their education early are more likely to have good outcomes when they are older; this is particularly important for children from disadvantaged socio-economic backgrounds, with more limited opportunities for learning at home. Access to ECEC in the Western Balkans is very limited, especially for the poor and those living in rural areas. The biggest gaps in ECEC enrolment exist for children aged 0-3 years old.

1.2.2. Boosting competencies beyond formal education

To become dynamic economies, the Western Balkans need to put a high premium on adult learning – both for upskilling and reskilling. Automation in various sectors is expected to change skill needs within existing jobs, while making certain jobs obsolete. In parallel, new technologies and changes in the organisation of work are creating new jobs with very different skill needs. Adult education is critical to adequately facing these challenges: high quality adult learning systems can help people develop and maintain relevant skills over their careers (OECD, 2019[17]). At present, only a relatively small share of adults in the Western Balkan economies participate in any kind of formal or non-formal education and training activities (Figure 1.9).

Figure 1.9. Adult participation in education and training is very low

% of adults (aged 25-64) participating in education and training, 2016



Source: Eurostat (2020[18]), Database - Skills-related statistics, https://ec.europa.eu/eurostat/web/skills/data/database.

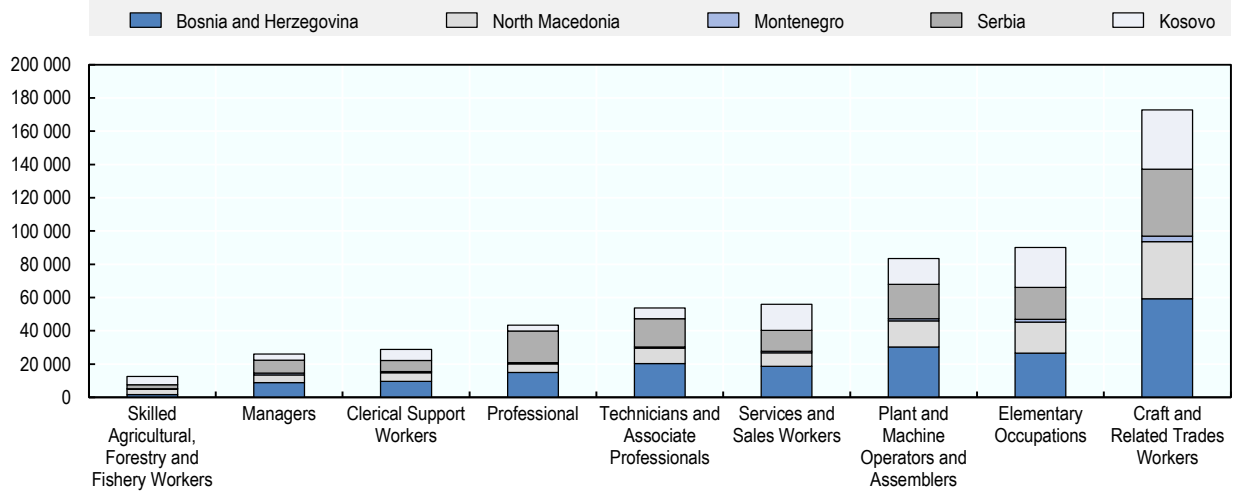
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To ensure the highest possible spillovers of competencies and knowledge – both for local people and enterprises – the Western Balkans economies should create linkages with existing foreign investors and attract strategic investment. Foreign direct investment (FDI) can boost competencies and increase the skills of both employees as well as local enterprises that supply material to foreign companies. Foreign companies can also provide valuable inputs for curricula development and modernising the education system. With these considerations in mind, investment promotion policies should target investments with high potential to trigger competency-related spillovers. Aftercare services for investors can also support the development of linkages with local business. Economies in the region have attracted investors in recent years; while more policy efforts are required to strengthen linkages with domestic economies, North Macedonia and Serbia show great promising examples (Box 2.3 of Chapter 2).

Economies in the region should tap into their large and well-educated diaspora, seeking to stimulate financial capital and knowledge spillovers. Citizens of the Western Balkans who currently live in OECD countries are highly skilled (Figure 1.10); they also tend to maintain familial connections to their places of origin, visible through the large volumes of remittances flowing into the region every year (World Bank, 2021[4]). To date, the region has not sufficiently tapped into these emigrants' knowledge and competencies which are not available domestically. The Albanian Diaspora Business Chamber, an independent non-profit organisation that supports investors from the diaspora willing to establish or expand their businesses in Albania, is a recent example of such efforts. In addition, Albania's National Strategy for Diaspora 2021-2025 (adopted in July 2020 by the Council of Ministers), aims to mobilise professionals abroad and to attract innovative investments from the diaspora (OECD, 2021[1]).[3]

Figure 1.10. A large share of Western Balkans people living in OECD countries have important skills

Number of people from the Western Balkans living in OECD economies, 2015-16



Source: OECD (2016[19]), *Database on Immigrants in OECD and non-OECD Countries: DIOC* (database), www.oecd.org/els/mig/dioc.htm.

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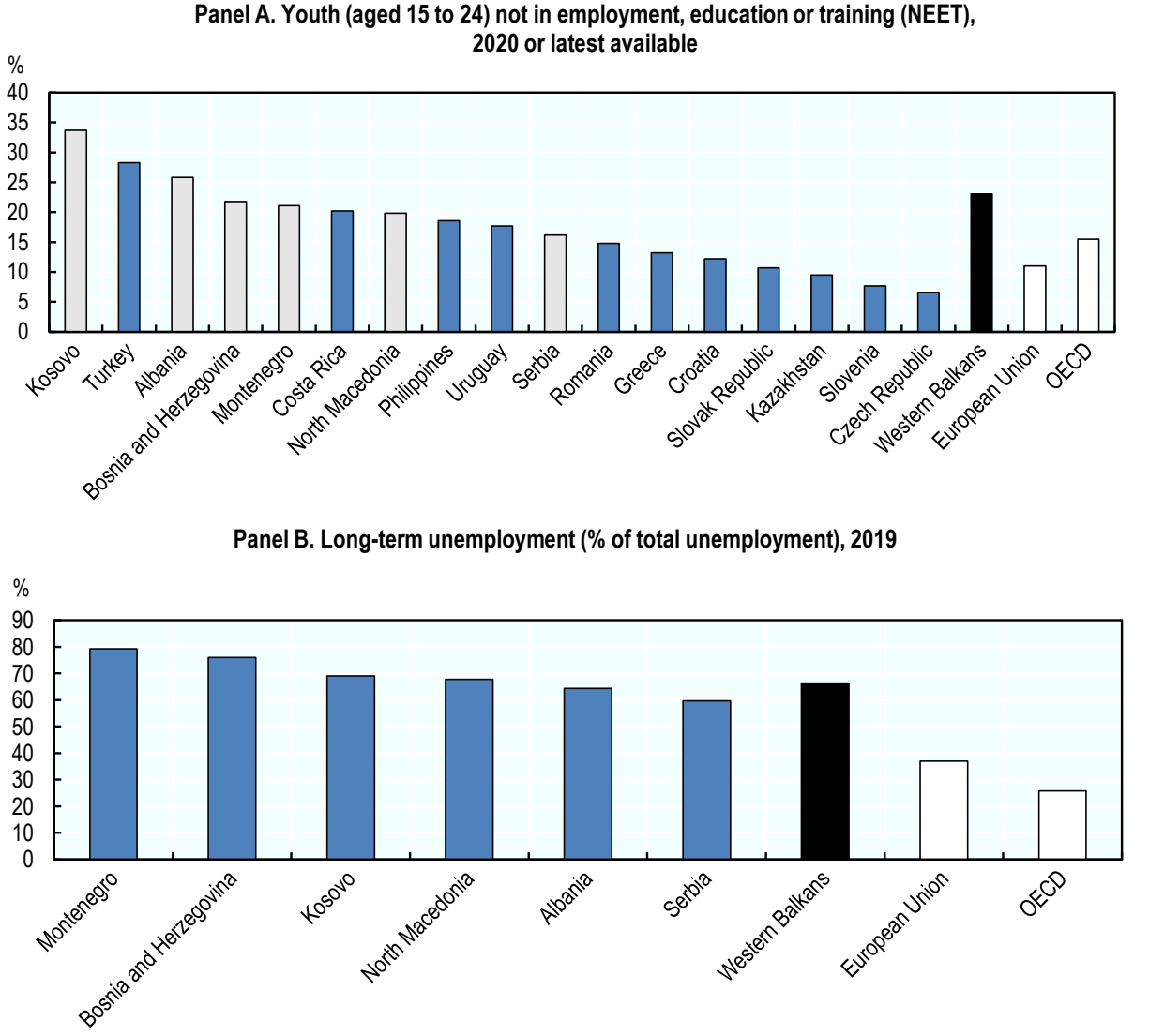
1.3. Fostering social cohesion

Across the Western Balkans, underperforming labour markets leave many people without attractive employment opportunities and strain the ability of citizens to support each other, thus hampering social cohesion. Labour markets in the region are characterised by a lack of formal jobs,

especially for young persons, and high long-term unemployment rates (Figure 1.11). In turn, many people find themselves without adequate income and risk losing valuable skills and exiting labour markets, which puts great strain on the social protection system. The lack of equal opportunities in the labour market for some groups, including women and Roma, exacerbates the problem and deprives the regional economies of human capital. To earn income, many people resort to informal activities.

Figure 1.11. Many young and long-term unemployed have poor labour market prospects

Youth (aged 15 to 24) not in employment, education or training (NEET), 2020 (Panel A), and long-term unemployment (% of total unemployment), 2019 (Panel B)



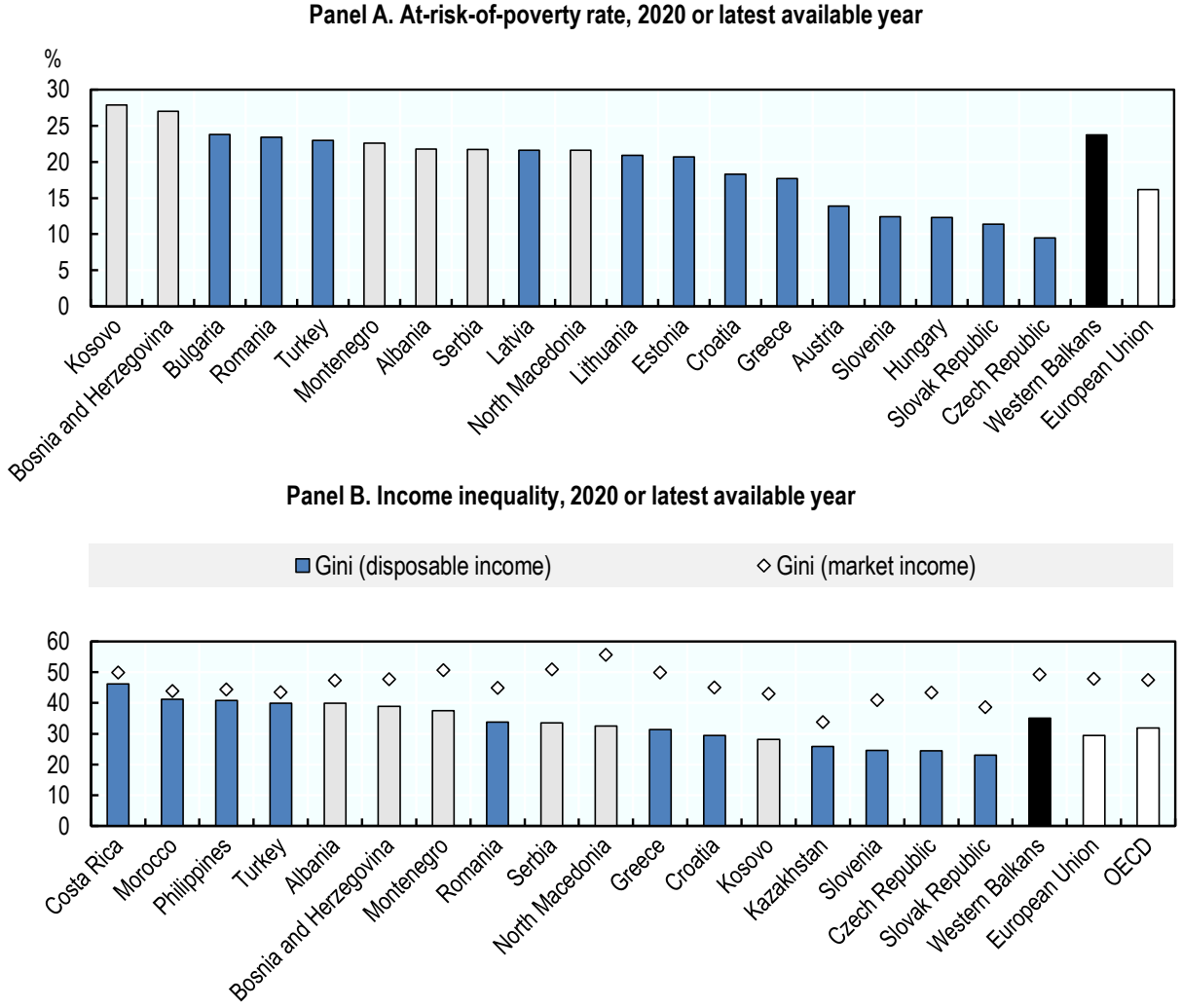
Note: Panel A. data for Albania and Uruguay are for 2019, data for Kazakhstan is for 2016.
Source: ILO (2021[20]), *ILOStat* (database), https://ilostat.ilo.org/data/; Eurostat (2021[9]), Data Explorer (database), https://ec.europa.eu/eurostat/data/database; OECD (2021[21]), OECD Statistics (database), https://stats.oecd.org/; World Bank/WIIW (2021[22]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html; World Bank (2021[4]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators.

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Social protection systems in the region do not adequately reduce poverty, limit inequalities or address discrimination. In 2020 almost one-quarter of the Western Balkan population lived in poverty, which particularly affected people living in rural areas (Figure 1.12 – Panel A). High levels of post-distribution income inequality – at about 35.1 on the Gini index – suggest that social protection policies do not adequately address it (Figure 1.12 – Panel B). In turn, high territorial inequalities demand more effective social protection policies, as do the adverse well-being outcomes of certain groups, including Roma or lesbian, gay, bisexual, transgender and intersex (LGBTI) persons.

Figure 1.12. Many people continue to live in poverty and inequalities are relatively high

At-risk-of-poverty rate (%), 2020 or latest available year (Panel A), and income inequality (Gini index), 2020 or latest available year (Panel B)



Note: The at-risk-of-poverty rate is the share of persons with an equalised income below 60% of the national median income after social transfers. Panel A - The latest available year is 2015 for Bosnia and Herzegovina, and 2018 for Kosovo. Panel B - The latest available year is 2014 for Bosnia and Herzegovina, Montenegro and Morocco, 2015 for the Philippines, 2016 for North Macedonia and Slovak Republic, 2017 for Croatia, Czech Republic, Greece, Kosovo, Romania, Serbia and Slovenia, and 2018 for Albania, Costa Rica, Kazakhstan and Turkey.
Source: Eurostat (2021[9]), *Data Explorer* (database), https://ec.europa.eu/eurostat/data/database; ESPN (2019[23]), *In-work poverty in Bosnia and Herzegovina,* https://ec.europa.eu/social/BlobServlet?docId=21121&langId=en; Solt (2019[24]), *The Standardized World Income Inequality Database*, Versions 8-9 (dataset), https://doi.org/10.7910/DVN/LM4OWF.

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Addressing the issues that hamper social cohesion in the Western Balkans calls for strong labour market policies that help people participate in the labour market on an equal footing, as well as social protection schemes that cushion periods of hardship and provide people with new opportunities. To achieve a socially cohesive society, it is important to offer its members the opportunity to participate, to create a sense of belonging and promote trust, and to fight against exclusion and marginalisation (OECD, 2011[25]). Employment opportunities provide people with income and prospects for personal development while also reducing financial pressures on the social protection system, which in turn provides room to improve its quality. As the region's populations grow older, solving the social protection challenge becomes more urgent. Gaps in social security provision must be closed, coverage enhanced and adequacy improved. Importantly, support must be targeted to first reach those who need it most.

1.3.1. Supporting people to find opportunities in the labour market in the Western Balkans

Strengthening the coverage and effectiveness of active labour market policies (ALMPs) can play a major role in integrating the unemployed into the labour market, including the long-term unemployed and persons with limited work experience, especially among the young. Participation of the registered unemployed in ALMPs varies across the Western Balkan economies, ranging from 5.3% in Serbia (in 2018) to 9.3% in Kosovo (in 2016), which is very low in comparison to 2016 figures for the benchmark economies of Croatia (22.1%), Slovak Republic (26.8%) and Hungary (71.4%) (Table 1.2) (European Commission, 2021[26]). Low staffing in the public employment services in the region means the administrative workload of each counsellor limits the effectiveness of ALMPs, especially in connecting people with jobs and providing them with opportunities to acquire new and additional skills.

Table 1.2. Participation in ALMP measures varies among economies but is low overall

Share of participation in different ALMP measures per number of unemployed registered with employment services in 2018 (or latest available)

	Albania		Bosnia and Herzegovina		Kosovo		North Macedonia		Serbia	
	Total	Youth	Total	Youth	Total	Youth	Total	Youth	Total	Youth
Registered job seekers	64 781	11 960	435 266	56 681	101 773	32 987	94 721	20 151	552 513	54 226
ALMP participants (% of registered unemployed)	7.4	30.9	7.6	13.5	8.5	22.9	8.1	11.6	5.3	9.7

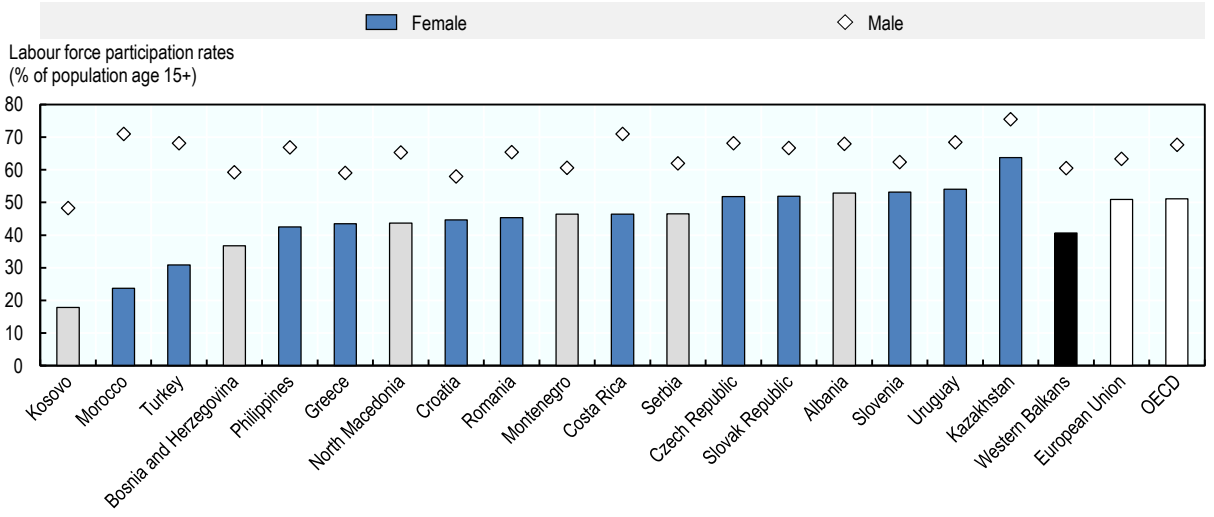
Source: CPESSEC (2019[27]), Statistical Bulletin No. 9, https://www.docdroid.net/qvBC3jr/statisticki-bilten-br-9-cpessec-finalno-converted-pdf; RCC (2021[28]) Study on Youth Employment in the Western Balkans, https://www.rcc.int/download/docs/Study-on-Youth-Employment-in-the%20Western-Balkans-08072021.pdf/7464a4c82ee558440dfbea2e23028483.pdf Jahja Lubishtani (2018[29]), The Effectiveness of Active Labour Market Policies in Reducing Unemployment in Transition Economies, https://core.ac.uk/download/pdf/226765796.pdf; Government of Albania (2020[30]), Employment, Training, and Equal Opportunities, https://rm.coe.int/rap-cha-alb-11-2020/16809cd971.

Providing more opportunities for people from vulnerable groups, including Roma and people with disabilities, to participate in the labour market is important to unleash their potential and improve their social mobility. The Roma, who make up about 5% of the regional population, face particularly challenging labour market situations: lower educational attainment means they face significant barriers to employment (Robayo-Abril and Millan, 2019[31]). People with disabilities also face barriers to education and employment, in part due to stereotypes and other forms of marginalisation. Providing vulnerable persons with better access to education and reducing discrimination are priorities to improve their integration through employment.

Supporting women's integration into the labour market – including by encouraging their entrepreneurship – can allow Western Balkan economies to leverage their human capital while fostering social cohesion. Despite variation across Western Balkan economies, the regional gender gap in labour force participation (about 20 percentage points) is significantly higher than OECD and EU averages (16.5 and 12.4 percentage points, respectively) (Figure 1.13). Across the region, women face multiple barriers to formal employment, including the lack of available childcare, institutional barriers and social norms. Low ECEC enrolment, especially in Bosnia and Herzegovina, Kosovo and North Macedonia, means women must prioritise childcare over employment. The lack of flexible work arrangements and social norms, such as gender stereotypes and patriarchal culture, also constrain women's participation in the labour market.

Figure 1.13. Creating more labour market opportunities for women

Labour force participation rate by gender, 2020 or latest available year



Note: Panel A. Data for Morocco refer to 2016, data for Albania refer to 2019.
Source: World Bank (2021[4]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

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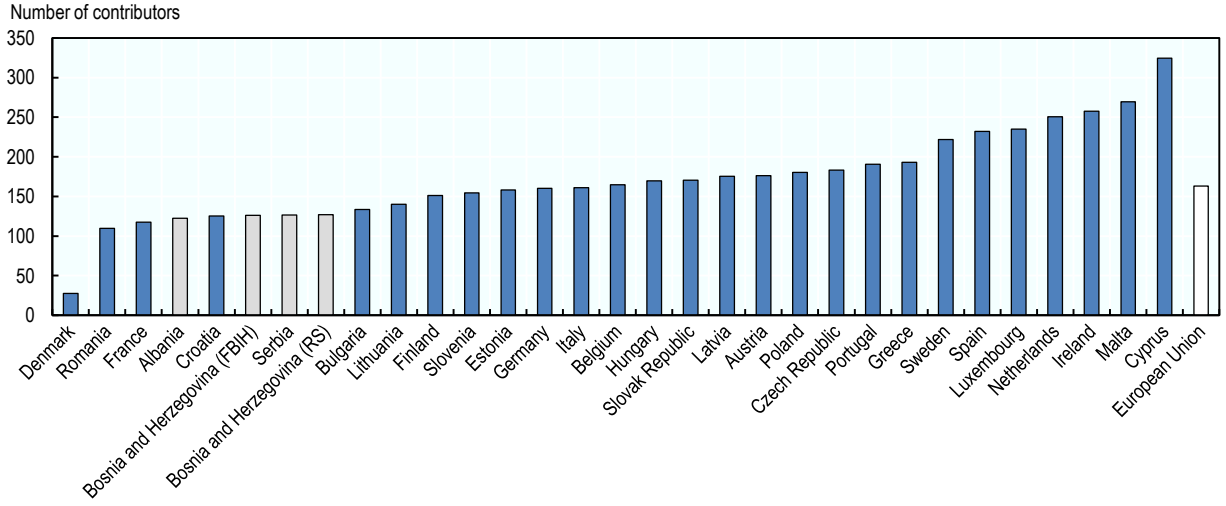
1.3.2. Social protection systems in the Western Balkans could reduce poverty, tackle inequalities and address discrimination more effectively

To encourage people to participate in formal employment, economies in the region should reduce high social security contributions, especially for low wage earners, address the adequacy of benefits, and improve the effectiveness and attractiveness of social security systems. Current labour market challenges create a situation in which many people, especially the young, do not contribute to unemployment insurance long enough to qualify for unemployment benefits or, for older individuals, have lost their unemployment benefit entitlements due to long-term unemployment. The high overall level of labour taxation, especially in Serbia, Montenegro, and Bosnia and Herzegovina (and to some degree in North Macedonia), together with non-existent or very modest progressivity of personal income tax, reduces take-home pay for low-wage earners and those working shorter hours, creating disincentives for formal labour market participation.

In view of low social security contribution rates in the working age population and rapid population ageing over the next decades, addressing coverage can improve financing of old-age pensions, an integral part of any social security system, and a tool to foster social cohesion. The relatively low number of contributors has been creating significant pressure on pension systems across the region (Figure 1.14). All economies in the region (with the exception of Kosovo) have undertaken major reforms of their pension systems in recent years**.** However, in light of low labour market participation and population ageing, more effort is needed to ensure both adequate protection for people and the long-term sustainability of social protection systems.

Figure 1.14. A relatively low and declining number of contributors creates pressure on pension systems in the region

Pension support ratios (number of contributors per 100 beneficiaries), 2019 or latest available year



Note: Data for Albania, Bosnia and Herzegovina, and Serbia is for 2018.
Source: European Commission (2021[32]), The 2021 Ageing Report, https://ec.europa.eu/info/sites/default/files/economy-finance/ip148_en.pdf; World Bank (2020[33]), Albania: Pension Policy Challenges in 2020, https://documents1.worldbank.org/curated/en/110911593570542693/Albania-Pension-Policy-Challenges-in-2020.docx; World Bank (2020[34]), Bosnia and Herzegovina: Pension Policy Challenges in 2020, https://documents.worldbank.org/pt/publication/documents-reports/documentdetail/292981593571282850/bosnia-and-herzegovina-pension-policy-challenges-in-2020; World Bank (2020[35]), Serbia: Pension Policy Challenges in 2020, https://documents1.worldbank.org/curated/en/598501593564636264/pdf/Serbia-Pension-Policy-Challenges-in-2020.pdf.

StatLink https://stat.link/r918cn

Despite their wide variety, for all social assistance schemes in the Western Balkans there is a common need to increase both the coverage and adequacy of benefits. In general, spending on means-tested benefits makes up a very small share of overall social protection spending in these economies. This reflects low benefit levels and, in some cases, poor targeting. Ultimately, means-tested benefits do not play a sufficient role in poverty alleviation. Additionally, status groups such veterans and their families receive more generous benefits in the form of pensions, regardless of their needs and labour market participation. Regional economies should address the low level of coverage through more effective targeting and by removing administrative barriers to obtaining assistance, while also reassessing the adequacy of social assistance benefits.

Establishing community-integrated social services is one of the key policy priorities identified by peer-learning workshop participants. Community-integrated social services encompass a range of approaches and methods for achieving greater co-ordination and effectiveness among different services, such as elderly care, healthcare, education and others – with the objective of improving outcomes for services users.[4] Peer-learning participants stressed community-integrated services as a key lever to strengthen social protection, deliver social care services and reduce long-term dependency on social welfare through better labour market integration. At present, limited or inexistent social services in some economies and low capacities in local governments hamper prospects of creating community-integrated social services. A related challenge is that, across the region, population information is generally based on often outdated census data and civil registration, which might not account for migration flows within economies and abroad. As such, current systems of resource redistribution may underestimate local service users and exacerbate (rather than reduce) territorial inequalities.

1.4. Ensuring a green recovery

A green recovery in the Western Balkans requires energy sector reforms to make the region healthier and more attractive to live in, to return to, and to invest in. A cleaner environment, in particular, less air pollution, especially in the major urban centres, is a top desire of residents of the Western Balkans. A rapid phase-out of coal would dramatically reduce air pollution. At the same time, successful energy sector reforms dismantling monolithic structures in the state-owned utilities would enhance their productivity, and open up space for new companies to inject dynamism in the sector. Cleaner air and new opportunities for employment would follow and make the region more attractive for young people.

In the longer run, a greener trajectory for the region can create opportunities through broad transformation. Beyond the energy sector itself, more resource-efficient modes of operation and entirely new manufacturing and service activities will have to follow as next steps. This longer-term vision of a greener future requires modernisation across many sectors and links to the education and skills framework, leading to innovation and next generation business and employment opportunities.

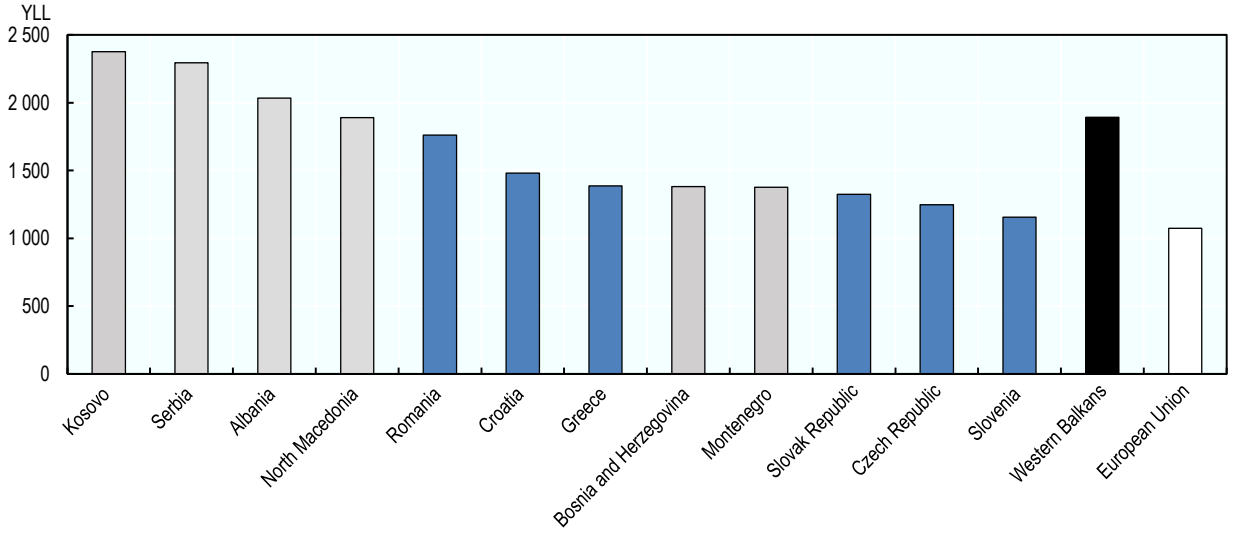
Economic recovery from the COVID-19 pandemic is an opportunity to "build back better", a strategy adopted by many governments around the world, with a focus on leveraging post-pandemic growth in energy demand and investment to drive the low-carbon transition. While the pandemic has spurred aggressive action, governments need to recognise that global environmental emergencies – such as climate change and biodiversity loss – could cause far larger social and economic damage. In this regard, "building back better" means governments should design economic recovery packages that trigger investments and societal changes to both reduce the likelihood of future shocks, and improve resilience when they do occur, whether from disease or environmental degradation. At the heart of this approach is the transition to more inclusive, more resilient societies with net-zero greenhouse gas (GHG) emissions and much-reduced impacts on nature (OECD, 2020[36]). A green recovery in the Western Balkans should leverage opportunities to modernise and upgrade the region's energy systems, which would dramatically reduce GHG emissions.

A green recovery will take place amidst the process to implement the policies of the Energy Community, of which the Western Balkan countries are part, and more broadly the EU acquis[5] for the energy sector. Meanwhile, the European Union, which represents 87% of the Energy Community's population, has raised its ambitions for the energy transition by announcing its Green Deal at the end of 2019, and in April 2021 approved legislation to reduce carbon emissions by at least 55% by 2030, compared with 1990 levels.

Air pollution is one of the most pressing strains to quality of life in the Western Balkans. The rate of premature deaths associated with exposure to fine particle (particulate matter or PM) pollution is much higher than in neighbouring countries (Figure 1.15). In the three-year period leading up to 2020, air pollution from coal plants in the region was responsible for 19 000 deaths (CEE Bankwatch Network, 2021[37]) – of which nearly 12 000 resulted from breaches of legally binding pollution limits. Such breaches also generated healthcare costs between EUR 6.0 billion and 12.1 billion in 2020 alone.

Figure 1.15. Air pollution in Western Balkan economies has important health impacts

Years of life lost (YLL) per 100 000 inhabitants attributable to exposure to PM2.5 pollution, 2016



Source: European Environment Agency (2020[38]), Air quality in Europe: 2020 report. https://www.eea.europa.eu/publications/air-quality-in-europe-2020-report.

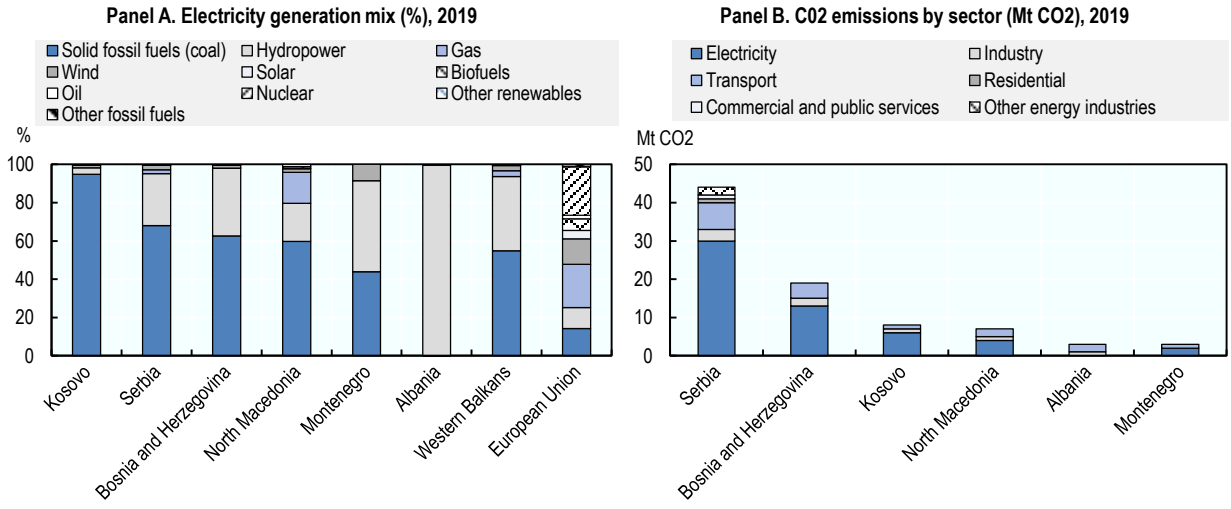
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Heavy reliance on burning coal, along with outdated technology for power generation and residential heating, are the main drivers of high pollution in the region. Burning of coal and wood in homes, for cooking and heating, generates high levels of PM 2.5 emissions (World Bank, 2020[39]). Power generation from coal, the main source of electricity generation in the region except Albania, is the second-largest source of PM 2.5 emissions within Western Balkan economies, and by far the leading source of transboundary pollution.

High reliance on coal for energy production, combined with outdated power plants, result in low energy efficiency and significant CO2 emissions (Figure 1.16). In relation to economic output in Western Balkan economies, both energy use and CO2 emissions remain high. While energy and carbon intensities per unit of GDP have been reduced since 2010, they remain well above most regional peers and averages of EU and OECD countries. In contrast, CO2 emissions per capita are below EU and OECD averages, reflecting lower levels of industrial activity per capita. Prospect for improvement are low: despite an aging fleet of thermal power plants (TPPs), few are scheduled for decommissioning and new plants are planned. Under such conditions, air pollution will continue to worsen.

Figure 1.16. Coal-fuelled electricity generation drives CO_2 emissions in the Western Balkans

Electricity generation mix (%), 2019 (Panel A), and CO_2 emissions by sector (Mt CO2), 2019 (Panel B)



Source: Panel A: Eurostat (2021[9]), Eurostat (database), https://ec.europa.eu/eurostat/. Panel B: IEA (2021[40]), Data and statistics, https://www.iea.org/data-and-statistics/.

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Many of the region's coal power plants emit harmful substances in massively higher volumes than legally allowed. In 2020, the 18 coal-fired power stations in Serbia, Kosovo, Bosnia and Herzegovina, North Macedonia and Montenegro produced 2.5 times as much harmful sulphur dioxide (SO2) emissions as all of the 221 coal stations in the EU combined. In Bosnia and Herzegovina, North Macedonia and Serbia, levels of SO2 pollution are six to seven times the legal limit to which these economies committed to under the Energy Community (CEE Bankwatch Network, 2021[37]).

Pollution and emissions intensity will continue to pose challenges to the region's EU integration process. In recent years, the Energy Community Secretariat had to bring several dispute settlement cases against Western Balkan economies reflecting disregard of pollution limits in National Emission Reduction Plans (NERPs). Going forward, rapid progress within the EU on carbon pricing and a possible carbon border adjustment tax will likely have significant effects on electricity and other exports from the Western Balkans to the EU (Energy Community Secretariat, 2021[41]).

Transmission and distribution (T&D) losses add to the challenge of low energy efficiency. In 2019, technical losses linked to aging grids in Western Balkan economies amounted to almost 29% of primary energy consumption compared with 23% in the European Union. In 2014, average T&D losses across the region were as high as 16.6% of total electricity output, against an EU average of 6.2% and an OECD average of 6.3% (World Bank, 2021[4]).

On the demand side, high energy intensity reflects low levels of energy efficiency, particularly in residential and commercial buildings. Buildings in Western Balkan economies are poorly insulated, and space heating is often based on outdated and polluting heating devices. A large share of buildings are heated with inefficient stoves and boilers that use wood, lignite, and coal (World Bank, 2020[13]; Eurostat, 2021[9]).

Below-cost electricity prices, subsidies and inefficient state-owned enterprises (SOEs) dominating markets combine into an environment that is difficult to reform. Electricity prices charged to households in the Western Balkans are often lower than production costs, generating significant deficits of

between 1% and 6% of GDP. Despite artificially low prices, the cost of electricity for households as a share of their income is relatively high, making price increases politically unpalatable. To compensate state-owned producers for low prices, governments subsidise these enterprises in a variety of ways. Except for Albania, most of this support subsidises coal. Subsidies and artificially low electricity prices have locked in public resources and continue to prevent fair competition for alternative electricity. Although possibly intended to keep electricity affordable for the less well-off, subsidies disproportionally benefit wealthier groups. With ageing infrastructure and commitments made towards competition and better regulation, the pressure to reform subsidies and SOEs will increase.

Significant challenges remain with implementation, capacity and political interference in energy markets. Overall, progress on transposing legal and regulatory frameworks contrasts with low levels of implementation and enforcement, as well as the limited capacity of Western Balkans institutions to manage the transition. Western Balkan governments have frequently adopted energy and environmental legislation that later is only partially enforced. Political interference, particularly in SOE governance, plays an important role in the slow pace of reform. Even in economies in which the legal framework governing the activities of the energy regulator is in line with the *acquis*, the regulator may lack *de facto* independence or adequate authority.

1.4.1. Priorities for the transition towards low-carbon energy

Western Balkan economies have already made important commitments to climate neutrality but often fall short on implementing plans and achieving objectives. Through the 2020 Sofia Declaration, Western Balkan economies committed to concrete actions in support of the EU 2050 climate-neutrality target. However, GHG emissions reduction targets under the Paris Agreement, established in Nationally Determined Contributions (NDCs), generally lack sufficient ambition to achieve this goal. Existing legislation on energy and climate is frequently not enforced and implementation deadlines are not respected.

Peer-learning participants selected finalising credible National Energy and Climate Plans (NECPs) as the top priority for a green recovery in the region. NECPs are part of the Clean Energy for All Europeans package adopted in 2019. Western Balkan economies are at different stages of the process of developing NECPs, with Albania and North Macedonia being the most advanced (Table 1.3).

To fully play their role, NECPs must set out a convincing, credible vision that addresses key challenges. In the case of the Western Balkan region, NECPs must set out alternatives that allow for the decommissioning of coal, reduce subsidy regimes and prioritise energy efficiency investments. In parallel, they will have to set the conditions for renewables to play a much larger role in the energy mix, which imposes infrastructure needs. Enhancing the flexibility of electricity systems is of paramount importance, for example by adding easy-to-fire-up plants operating on natural gas and promoting more regionally integrated markets. All of this will likely imply higher energy and electricity prices generally, as well as job losses in coal-dependent industries. Such impacts will require economic and social policy responses. Last but certainly not least, investors must be able to trust in the direction of travel and the rules to be applied.

A credible vision must:

- **recognise that a green recovery requires adequate balance of intermittent renewables and baseload capacity in the Western Balkans.** The question of how to replace coal-fired baseload in the Western Balkans remains unresolved. A credible vision would further need to recognise that large upfront capital investments are needed to either convert or replace existing coal plants with cleaner alternatives.
- **strike a balance between regional integration and energy security.** Until cleaner options are available for implementing a minimum level of low-carbon domestic energy production, coal fired plants are likely to remain in the norm to ensure energy security.

- **take a holistic approach of the role of energy sector within the fiscal structure of each economy, and clearly communicate this approach to citizens.** Across the Western Balkans, current energy subsidy regimes carry enormous fiscal costs. This significantly reduces the ability of governments to provide other services for citizens. In undertaking subsidy reform, they will need to convince citizens that more efficient, means-tested ways of reducing energy costs will enhance provision of other services.
- **bring clarity and cohesiveness to the body of existing laws, plans and strategies.** All Western Balkan economies have either already adopted or drafted a low-carbon development strategy. However, these often remain at odds with other frameworks, such as energy strategies that extend use of coal rather than phasing it out, as in the case of Serbia and Kosovo. Most national energy efficiency action plans (NEEAPs) and renewables development strategies need to be updated or replaced (Table 14.6 of Chapter 14).

Table 1.3. Western Balkan economies' progress varies in preparing NECPs

Progress in preparation and adoption of NECPs

	Legal basis adopted	Working group operational	Modelling capacity exists	Policy section drafted	Analytical section drafted	Submitted to the Secretariat for peer review	Final version submitted to the Secretariat
Albania	●	●	●	●	●	●	●
Bosnia and Herzegovina	●	●	●	●	●	●	●
Kosovo	●	●	●	●	●	●	●
Montenegro	●	●	●	●	●	●	●
North Macedonia	●	●	●	●	●	●	●
Serbia	●	●	●	●	●	●	●

Note: Green = in place; Orange = in progress; Red = limited progress.
Source: Energy Community Secretariat (2021[42]), WB6 Energy Transition Tracker, https://www.energy-community.org/regionalinitiatives/WB6/Tracker.html; Energy Community Secretariat (2021[41]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021.html.

To be credible, NECPs need to reflect a broad green social consensus and ensure that institutional capacity to deliver on commitments is in place. Western Balkan governments have committed to adopt and implement relevant EU energy and climate legislation, including energy efficiency, renewable energy and climate targets. However, in committing to EU legislation, regional and local consultations have played only a limited role. A credible vision should create buy-in from governments, parliaments, citizens, the private sector, and civil society, and motivate climate action. Such a vision should be based on a bottom up approach and start with commitments at the city and municipality levels. The low level of public awareness regarding the advantages of renewables and energy efficiency must be addressed through education, the media, and communication campaigns. To deliver on commitments, Western Balkan economies must also build institutional capacity in areas such as effective GHG reporting, monitoring and verification mechanisms, and strong and independent energy regulators.

1.4.2. Boosting renewables and generating baseload

The Western Balkans region boasts a significant share of renewable energy, but fuel wood represents a large share. In 2019, renewables, including biofuels, accounted for 18.2% of final energy consumption in the Western Balkans, against only 10.2% in the European Union. However, 60% of the region's renewable energy supply stems from biofuels – mainly fuel wood used for heating and cooking (Eurostat, 2021[9]). While counted as a renewable energy source, the traditional burning of undried wood in old stoves and ovens is a major contributor to PM2.5 emissions, which are associated with heavy air pollution and premature deaths in the region (World Bank, 2017[43]).

The potential of wind and solar power remains largely untapped in the Western Balkans, despite having become cheaper over recent years. Together, wind and solar account for only 3% of total energy supply in the Western Balkans and 6% of renewable electricity generation. In 2020, total installed capacity amounted to 674 MW of wind power and 109 MW of solar. Existing capacities represent only 5.5% of the cost-competitive potential of 12.2 gigawatts (GW) for wind and 2.5% of the 4.4 GW potential for solar (IRENA, 2017[44]) (World Bank, 2018[45]). While hydropower has a dominant role in renewable energy action plans, and receives a substantial share of incentives for renewables (e.g. feed-in tariffs), wind and solar energy are, so far, subordinate. This does not yet reflect the dramatic reductions in cost for both types of energy, which, since 2010, have dropped by 82% for solar.

To integrate a significant share of intermittent renewables in their electricity mix, Western Balkan economies require flexible electricity systems, including baseload capacity. Electricity production from renewables is variable and requires new approaches to system balancing and sufficient baseload capacity. Unlike power plants that continuously generate electricity from controlled burning processes or geothermal energy, electricity from wind and solar is intermittent and depends on weather and daylight conditions. Current electricity systems in the Western Balkans lack the flexibility and baseload capacity to support a significant increase in the share of renewables. The region's coal-fired TPPs are largely outdated and slow to shut down and restart. In addition, intraregional trade in electricity remains limited. Once coal-fired power plants have been shut down, the Western Balkan region would need to find alternative, cleaner sources of baseload.

Modern biomass, hydropower based storage, natural gas and regional energy imports could provide flexible baseload capacity in Western Balkan economies. In the context of a regional solution for boosting renewables, Albania could serve as a "battery" of clean baseload. Albania's hydropower potential could provide energy storage services. In the longer run, quickly dispatchable power from gas-fired plants could replace – in a much more flexible form – the baseload capacity currently provided by coal. However, natural gas reduces emissions relative to coal by only 50% when producing electricity. Moreover, a significant increase in the use of natural gas would require large investments in new pipelines and infrastructure. Modern biomass offers another baseload alternative, particularly in Serbia, Bosnia and Herzegovina and Montenegro. Improved interconnection with neighbouring economies would allow for balancing through export and import. However, a high reliance on energy imports generates threats to energy security and might result in significant costs and balance of payments challenges. Hydrogen, battery based storage and geothermal energy are other, less feasible alternatives, since they remain costly and still face numerous technical challenges.

Liquid, well-functioning and competitive intra-day balancing markets are a key ingredient for a low-carbon transition. Incorporating a large share of highly variable and intermittent renewable sources in the electricity mixes of Western Balkan economies will increase system balancing needs. At present, Western Balkan economies have deregulated balancing markets, but they remain dominated by incumbents. Further liberalising balancing markets would lead to a higher number of market participants, and lower electricity prices in the long run. A strengthening of cross-border balancing co-operation could improve liquidity and stability of balancing markets, increase the diversity of trade partners and create opportunities for trade of variable renewables amongst neighbouring systems.

Moving to market-based support mechanisms for renewables, by replacing feed-in tariffs (FiTs) with auctions, is a key component for scaling-up cost-competitive renewable energy sources. Market-based support mechanisms such as renewable auctions and feed-in premia (FiPs) can improve transparency in the selection of investors for renewable projects, ultimately helping to bring prices down and reduce the costs of government subsidies. Currently, FiTs exist in all regional economies, but most Western Balkan economies are gradually phasing them out, or maintaining them only for small renewable producers and introducing renewable auctions. Well-functioning, day-ahead electricity markets are a key prerequisite for market-based support mechanisms for renewables in order to calculate the flexible premia paid to support renewables (CEE Bankwatch Network, 2019[46]). At present, the Serbian power exchange (SEEPEX) is the only operational day-ahead market in the region (Energy Community Secretariat, 2021[42]).

Uptake of rooftop PV systems, still largely neglected throughout the region, is an important element of the region's energy transition and could be boosted through improved support mechanisms for self-consumers. Self-consumers or "prosumers" are households that produce energy for their own consumption, while also feeding into and buying from the grid. So far, installed renewable capacities by self-consumers – mainly photovoltaic installations – remain negligible in the region with 119 registered self-consumers in Kosovo, 42 in North Macedonia, 6 in Montenegro, 1 in Bosnia and Herzegovina and none in both Albania and Serbia. Support schemes for self-consumers are in place across the region, but could be improved. Further, the public often lacks awareness of the benefits of renewable energy and of relevant support schemes for self-consumers. In addition, the up-front costs of renewable energy infrastructure and artificially low electricity prices for households restrain self-consumers.

There is a need to simplify the procedures for connecting with the grid and feeding-in, which remain time-consuming, complex and cumbersome. Administrative procedures for authorisation, permitting and licensing to invest in renewables, for both self-consumers and large-scale projects, typically involve several procedures across multiple institutions and tend to be complex, cumbersome and time-consuming. Information on investment procedures is not always easily available. Improving processes and removing unnecessary administrative burdens and taxation could encourage more investment, particularly by self-consumers. One-stop shops could simplify, streamline and accelerate administrative procedures for investment in renewables.

1.4.3. Investing in energy efficiency

Low levels of energy efficiency in residential and commercial buildings in Western Balkan economies reflect poor insulation, and space heating based on outdated and polluting devices. Households account, on average, for 32.4% of final energy consumption in these economies compared with 26.9% in the EU (2019) (Eurostat, 2021[9]). The share of energy consumption corresponding to buildings ranges from 30% in Bosnia and Herzegovina to almost 50% in North Macedonia with estimated potential energy savings ranging from 20% to 40% (World Bank, 2018[45]). The vast majority of the housing stock in the region is outdated, having been built in the 1950-80s before proper energy efficiency standards were established (EBRD, 2016[47]). A large share of buildings are heated with inefficient stoves and boilers that use wood, lignite and coal and other solid fuels such as waste, and many buildings are poorly insulated (Eurostat, 2021[9]; World Bank, 2020[13]).

Western Balkan economies require comprehensive and widely accepted strategies for energy efficiency, along with a clear designation of institutions responsible for implementing relevant policies and appropriate accountability mechanisms. At present, most economies in the region have failed to designate and hold accountable specific institutions and actors to oversee energy efficiency improvements, including whether strategic documents are implemented and targets are met. As a result, energy efficiency policies are not centralised by one institution and often remain fragmented. Energy efficiency legislation, including laws on energy efficiency and on the energy performance of buildings, have

been adopted in all Western Balkan economies. However, actual implementation and adoption of secondary legislation have been slow, and the legislative framework remains patchy in many economies. Further, so far, no economy has adopted a building renovation strategy (Table 1.4).

Table 1.4. Important gaps remain in legal and institutional frameworks for energy efficiency improvements in Western Balkan economies

Legal and institutional frameworks for energy efficiency in Western Balkan economies

	Legislative framework for energy efficiency	Dedicated institution for energy efficiency	Energy efficiency fund	Building renovation strategy	Building typology
Albania	Law on Energy Efficiency (2015); Law on the Energy Performance of Buildings (2016)	●	●	●	●
Kosovo	Law on Energy Efficiency (2018); Law on the Energy Performance of Buildings (2016)	●	●	●	●
Serbia	Law on Energy Efficiency and Rational Use of Energy (2021); Law on Housing and Maintenance of Buildings (2016)	●	●	●	●
North Macedonia	Law on Energy Efficiency (2020)	●	●	●	●
Bosnia and Herzegovina	Separate laws on energy efficiency the FBiH and RS	●	●	●	●

Note: Green = in place. Orange = in progress. Red = limited progress.
Source: Authors' elaboration on Energy Community Secretariat (2021[41]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021.html; Energy Community Secretariat (2020[48]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2020.html.

The region's financing gap for energy efficiency remains large. Total investment needs for energy efficiency improvements in buildings in Western Balkan economies amounted to EUR 3.5 billion between 2011 and 2020; however, only EUR 1.4 billion of financing were secured between 2010 and 2021 (Energy Community Secretariat, 2021[42]). Within government budgets, financial resources devoted to energy efficiency improvements tend to be limited, leaving these economies very dependent on donor support. Financing purchase of energy efficient equipment or energy retrofits is also challenging for households, which face high costs and limited incentives. Little experience with this kind of investment means access to finance remains limited for energy efficiency projects. Access to public financing for energy efficiency measures needs to be improved, for example, through dedicated energy efficiency funds endowed with sufficient financial resources. To mobilise private financing for energy efficiency improvements, Western Balkan economies could explore guarantee and regulatory options, such as energy efficiency service companies (ESCOs).

Energy efficiency improvements in multi-apartment buildings could be facilitated through regulatory reforms and appropriate financing mechanisms. Some 39% of residential buildings in Western Balkan economies are multi-apartment buildings (Energy Community Secretariat, 2021[49]). Most were constructed in the 1960s to 1980s under obsolete building standards and have been poorly maintained: as such, their energy performance tends to be poor. Multi-apartment buildings' homeowner associations face cumbersome decision making, low funding and limited capacity. Generally, the collective decision making requires either a two-thirds majority or even unanimous consent for some matters. At the same time, reserve funds for such buildings are either non-existent or have very limited financial resources. Unsurprisingly, commercial banks in Western Balkan economies are reluctant to lend to homeowner associations. Reshaping the rules on decision making and fee collection for homeowner association could

reduce the perceived risk level. Credit guarantees and technical assistance for homeowner associations could further support energy efficiency improvements in multi-apartment buildings (USAID, 2020[50]).

The expansion of modernised district heating systems could replace inefficient heating devices. District heating plays an important role in some parts of the Western Balkans but remains predominantly based on fossil fuels, and subject to high technical losses and a lack of incentives for energy savings. Such heating systems represent around 14% of total heat demand in the region, compared with about 10% for the EU[6] as a whole. It is particularly developed in Serbia, with 25% of households connected. Existing systems in the region rely heavily on natural gas (67%), coal and/or lignite (21%), and petroleum products (9%). Billing for district heating systems is often based on lump sums per square meter of heated space rather than on actual consumption, providing no incentives for energy efficiency. Modernised district heating systems, run on renewable energy and based on metering and billing on actual consumption could offer viable solutions for clean urban heat.

1.4.4. Getting prices right through socially responsible carbon pricing and removal of subsidies

Public resources locked into coal subsidies, combined with below-cost electricity prices, are serious policy hindrances to a low-carbon transition of the energy sector in the Western Balkans. Substantial state subsidies flow to the SOEs responsible for electricity generated from coal, allowing these companies to supply energy to end-users at prices below the cost of production (World Bank, 2018[45]). Driven mainly by below-cost recovery tariffs and financed through a range of explicit and implicit subsidies, the cost of energy mispricing to the public sector is enormous. This system also means that inefficient coal-based SOEs continue to get propped up, hampering a low-carbon pathway. Without realistic electricity prices to cover production costs and a price on carbon,[7] there will be limited development of renewable energy sources (Energy Community/Kantor E3M, 2021[51]).

The region has committed to phasing out subsidies and introducing carbon pricing; at present, only Montenegro has introduced a carbon price. In the context of the EU Green Deal and the Sofia Declaration, economies of the region have committed to phasing out coal subsidies, aligning with the EU Emissions Trading Scheme (EU ETS) and carbon pricing, and working with the EU towards the 2050 target of a carbon-neutral continent. To date, only Montenegro has started integrating the cost of CO2 emissions. By not paying for CO2 emissions under the EU ETS over the period 2016-20, TPPs in the Western Balkans avoided costs of EUR 3 billion (measured at the average EU ETS price) (Energy Community Secretariat, 2021[42]).

The EU's proposed carbon border adjustment mechanism makes action urgent. Over the period 2023-26, the EU will be phasing in a carbon border tax for imports of energy-intensive products, initially including electricity, iron and steel, aluminium, fertilisers, and cement. Given a high level of trade with the EU[8] and the structure of exports, which include many on the energy-intensive list, the Western Balkans region would be significantly exposed to rising trading costs. If transitioning out of subsidies and into carbon pricing in the Western Balkans does not happen soon enough to avoid the EU carbon border adjustment, the region's governments would need contingency plans (Young, 2020[52]).

To tackle energy mispricing, SOEs in the energy sector require reform and energy sector regulators real independence. While progress has been made with the unbundling of energy production, transmission, and distribution, many energy SOEs in the Western Balkans remain de facto monopolies, facing challenges of overemployment, illiquidity, and political interference. The increased competition following from regional integration and energy market liberalisation could be an opportunity to provide momentum for reforms such as strengthening of performance evaluation and monitoring, corporatisation of the SOEs, and strengthening of governance and oversight (World Bank, 2018[45]). The lack of truly independent regulators overseeing the energy sector exacerbates the challenge of energy pricing reform.

Moving ahead with establishing fair and competitive energy markets is crucial to breaking this entanglement.

Instead of general energy subsidies and transfers to SOEs, more progressive energy support systems should target poor and vulnerable groups, within a market-based and competitive energy system. Various sources point to substantially higher levels of energy poverty in the Western Balkan region than in the EU. For example, the European Union Statistics on Income and Living Conditions (EU-SILC) show that 10% to 40% of Western Balkan households were not able to keep homes adequately warm in 2019 (Eurostat, 2021[53]). The removal of fossil fuel subsidies, and the introduction of carbon pricing without due compensation can be expected to affect vulnerable households negatively.

The employment challenge associated with decarbonising the energy sector needs to be managed; combining compensation with re-skilling has proven effective, and can target opportunities in renewables and energy efficiency. Across five of the six Western Balkan economies (Albania does not have coal production), the coal industry employs more than 30 000 people. While this is a small share of 14.5 million people living in the five economies, in regions that depend on coal, mining and TPPs have been the dominant employment options for decades (CEE Bankwatch Network, 2020[54]). Creating economic pathways for former coal regions and their workers is thus an essential step for securing a just transition and broad support for a green recovery in the population. International experience shows that combining re-skilling programmes with financial compensation for coal workers is an effective policy option. Possible job and training categories that correspond with the skills of former miners and workers include thermal retrofitting in the buildings sector, as well as other relevant jobs in construction and manufacturing. A drive for renewable energy and energy efficiency promises thus to offer new employment opportunities.

1.4.5. Mobilise financial resources for a green recovery

The Western Balkans' transition to a low-carbon society will be capital-intensive. It is challenging to estimate the amount of financial resources needed to decrease the carbon intensity in the region, since Western Balkan economies have not yet completed their NECPs, or similar documents to define goals for the transition. Nonetheless, estimates exist. According to a World Bank estimate, USD 15 billion of investments is needed before 2035, with about USD 10 billion for generation, and USD 5 billion for transmission and distribution (in 2010 dollars) (World Bank, 2018[45]).

To mobilise private investment into the energy sector, Western Balkan governments need to take a clear stance on the low-carbon energy transition. The absence of structured energy transition plans generates uncertainty about the direction and speed of the transition in the Western Balkans (Energy Community Secretariat, 2021[42]). Necessary frameworks for low-carbon energy investment include ambitious Nationally Determined Contributions; completion of National Energy and Climate Plans (NECPs) with a clear role for clean energy sources; ending fossil fuel subsidies; and strengthening of legal and regulatory frameworks for energy sector investment.

Government and multilateral financing will remain important. Revenues from the elimination of below-cost tariffs, pricing carbon emissions, and taxing polluters could provide capital for public low-carbon investment. Multilateral support will remain an important component of the financing required for to "build back better" from the COVID-19 pandemic, and provide investment for a green recovery**.** Key initiatives include the European Commission's Economic and Investment Plan for the Western Balkans, the EU's the Western Balkans Guarantee Facility, the EBRD's Green Economy Financing Facility (GEFF) and the Platform Initiative for Western Balkans and Ukraine.

1.5. Key policy options to boost education, foster social cohesion and ensure a green recovery

Building on the peer-learning priorities, OECD expertise and international experiences, the report provides various policy recommendations across the three themes. For each of them, recommendations are structured by key policy areas and, whenever possible, provide references in the three regional chapters to international experiences to facilitate policy learning. The recommendations may apply, albeit at different degrees, to any of the regional economies (Table 1.5).

Table 1.5. Key policy options

Priority policy areas	Policy recommendations
PART 1: BOOSTING EDUCATION AND COMPETENCIES	
Improving the quality of teaching	• Strengthen initial teacher education • Boost availability and quality of in-service teacher training • Strengthen incentives for better teacher performance and continuous professional development • Improve teaching quality by strengthening school leadership
Strengthening VET	• Develop more practice-oriented VET programmes by including employers in the design and implementation process • Review and consolidate VET profiles in line with labour market developments and needs • Enhance funding to improve access to equipment and teaching materials to improve the quality of teaching • Strengthen co-ordination mechanisms with the private sector to boost work-based learning through apprenticeships • Develop quality assurance for work-based learning that is not too burdensome for employers • Foster flexibility within VET through modular courses or pathways that create bridges between upper secondary vocational and tertiary education, thereby better responding to the diverse needs of students • Boost resources for career guidance for VET students to improve employability and reduce drop-outs
Increasing the use of digital technologies in the classroom	• Boost teacher capacities to use digital tools • Increase student access to digital technologies in the classroom
Updating and modernising curricula to impart relevant knowledge and skills	• Advance adaptation of competence-based curricula across schools • Strengthen co-ordination mechanisms with the private sector and other stakeholders to improve the labour-market relevance of curricula • Translate annual analyses of labour market needs into concrete proposals for enrolment policy and curricula improvements • Align assessment practices with the standards of the new curricula
Fostering equitable education at all levels	• Develop, finance and/or scale up initiatives that target Roma inclusion at all levels of education • Boost capacities and resources for equitable implementation of special needs education across all municipalities • Make funding strategies responsive to school and student needs by balancing decentralisation and/or local autonomy with resource accountability to ensure support to the most disadvantaged students and schools • Strengthen communication channels with parents of disadvantaged students, including students from lower socio-economic backgrounds and minorities, to better align school and parental efforts
Increasing and improving the financing of education	• A more efficient allocation of funding is needed to produce better and more equitable education outcomes
Strengthening governance and co-ordination of education policy	• Systematically engage with all relevant stakeholders in the policy-making process • Develop a common indicator framework for tracking progress across all jurisdictions, and improve data collection and sharing to boost the evidence base for education policy making • Regularly monitor and evaluate to improve policy design and implementation
Increasing access to and quality of ECEC	• Strengthen awareness of the importance of ECEC among policy makers (e.g. through

	trainings, workshops, participation in international conferences) and the general public • Increase financing for ECEC through, for example, reallocation of funding from primary education and setting criteria for the most efficient and effective allocation of this financing • Improve the infrastructure for ECEC, targeting in particular rural areas and municipalities with no ECEC facilities or services • Provide financial support for the most vulnerable families to support participation in ECEC
Creating opportunities for adult learning	• Promote the benefits of adult learning, providing high quality information and individualised advice and guidance services • Address barriers to participation through flexible training provision, statutory education and training leave, and financial incentives • Encourage employer engagement in adult education and training • Collect and use high quality skills assessment and anticipation (SAA) information to align adult learning policy more strategically with labour market needs • Design targeted programmes for adults whose skills are likely to become obsolete in the future • Build the capacity of adult learning providers to implement a quality assurance system • Encourage the uptake of non-formal trainings, including by recognising the competencies acquired • Making active labour market policies effective in connecting job-seekers with training opportunities
Leveraging foreign direct investments	• Strengthen the institutional framework for investment promotion and facilitation • Maximise the spillover potential of FDI • Develop relevant competencies and support domestic innovation by strengthening collaboration among domestic and foreign enterprises
Creating links with diaspora	• Map out the diaspora and engage strategically with a small group of high-achieving individuals in an elite programme • Develop a deeper and more trusting relationship with diaspora • Proactively facilitate connections between the diaspora and locally based entrepreneurs by improving the flow of information about business opportunities and diaspora availability around the globe • Encourage diaspora contributions to competitive research and innovation in their home economies • Systematically call on the professional diaspora and business angels to provide mentorship and seed financing to high-growth entrepreneurs, particularly in early-stage seed deals • Link incentives targeting diaspora contributions with diaspora rights
	PART 2: FOSTERING SOCIAL COHESION
Making ALMPs effective	• Ensuring rapid labour market re-integration of those who have recently lost their jobs will require increased capacities of public employment agencies, closer collaboration with employers to leverage existing jobs and better integration of technological solutions • Activating long-term unemployed and vulnerable groups will require increased individualised attention, establishing incentives for PES staff to increase their focus on these groups, potentially introducing programmes that are different in nature and approach, and setting up an integrated targeting approach involving collaboration with various stakeholders.
Create equal opportunities for vulnerable groups to participate in the labour market	• Take steps to reduce stereotypes in education and the workplace • Foster development of social enterprises (SE) as a steppingstone for integrating vulnerable groups into the labour market • Offer incentives for employers and ALMPs to increase chances for labour market participation of vulnerable groups
Strengthen women's role in society by supporting their integration into the labour market	• Improve access to childcare to facilitate labour market integration • Provide appropriate frameworks for part-time work and improve flexible working arrangements • Reduce stereotypes about women in education and in the workplace
Creating a more inclusive and fair social security system in the Western Balkans	• Increasing coverage of both social insurance and social assistance mechanisms matters for ensuring that a broad segment of population has social security entitlements and may improve the overall financial sustainability of the system • Improve the equity impact of the social security system by addressing the tax burden and phasing out benefit increases for special interest groups • Ensuring financial sustainability of the social security system is key to delivering quality services on an ongoing basis and strengthening its resilience in times of crisis

Strengthening targeting, equity and adequacy of social assistance for those most in need	• Assessing adequacy of social assistance, and increasing benefit amount where appropriate, can foster social cohesion by reducing poverty among the most vulnerable • Increasing coverage and improving targeting should ensure that no one is left behind • Improving linkages with local government, local communities and ALMPs can increase opportunities to participate in society and in the labour market
Delivering community-integrated social services	• Improving collection of population data is necessary for understanding the needs of people and local communities, and for providing targeted services • Improving co-ordination among different stakeholders is key to create shared objectives, ensure commitments of all partners, and set-up a framework of responsibilities • Revise the fiscal space of local self-governments • Digitalisation and adoption of technological solutions can streamline implementation of services, decrease costs and foster collaboration
PART 3: ENSURING A GREEN RECOVERY	
Creating a credible vision and laying the institutional foundation for the transition towards low-carbon energy	• Practice broad consultation as a steppingstone towards a credible vision and roadmap • Raise awareness and teach environmental education • Build institutional capacity and tackle political interference • Address the employment challenge associated with decarbonising the energy sector
Boosting renewables	• Make electricity systems more flexible, including through flexible baseload capacity, to support integration of renewable energy • Create liquid and competitive balancing markets and a regional certification system for renewables • Move towards market-based support schemes for renewables • Simplify the investment process and support both self-consumption and larger renewable energy projects to promote installation of solar and wind power • Generate knowledge and human capital for renewables
Investing in energy efficiency	• Design effective strategic and institutional frameworks for efficiency improvements • Introduce energy efficiency standards for heating, air-conditioning and building renovation, and ensure supply of skilled workers • Create incentives and frameworks to mobilise financing for energy efficiency • Make regulation of multi-apartment buildings and homeowners associations more conducive for energy efficiency investments • Modernise and increase access to district heating systems
Getting prices right through socially responsible carbon pricing and removal of subsidies	• Engage in a sequential process of coal subsidy reform • Gradually introduce carbon pricing and auctioning of CO2 allowances in sync with market integration • Ensure support for the energy poor as a core element of price reform • Invest the revenues from carbon pricing for future readiness and buy-in
Increasing cross-border energy trading for an integrated and competitive regional electricity market	• Focus on net transfer capacity and optimising the use of existing interconnectors • Advance integration through market coupling and increased collaboration
Mobilising financial resources for a green recovery	• Creating a conducive environment for investments in the power sector

Source: Authors' elaboration.

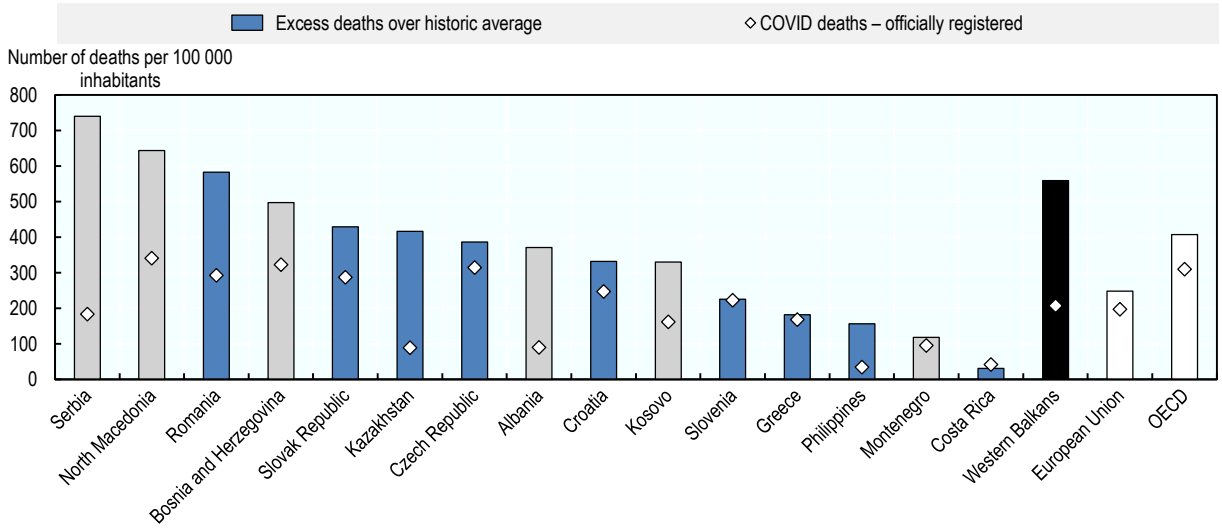
1.6. COVID-19 in the Western Balkans

1.6.1. Evolution of the pandemic and policy responses

The Western Balkans were hit relatively hard by the pandemic. The first COVID-19 case was recorded on 26 February 2020 in North Macedonia; the rest of the region reported cases within the next few weeks. As of 31 January 2022, the historical average of excess deaths in the region was at 560 deaths per 100 000 inhabitants, well above the OECD (407) and EU (249) averages (Figure 1.17).

Figure 1.17. The Western Balkans exhibit a large number of excess deaths compared with official figures

Number of excess deaths over historic average since each economy's first 50 COVID-19 deaths and number of COVID-19 deaths officially registered, 2020-22



Note: Latest available data on 28 January 2022. The excess death is the number of people who die from any cause in a given region and period, compared with a historical baseline from recent years. This estimate of the total number of fatalities caused by the pandemic accounts for common methodological issues which occurred in COVID-19 data reporting. Indeed, official statistics in many countries exclude victims who did not test positive for COVID-19 before dying. Also, hospitals and civil registries may not process death certificates for several days (or even weeks), which creates lags in the data. Finally, the pandemic has made it harder for doctors to treat other conditions and has discouraged people from going to hospital, which may have indirectly caused an increase in fatalities from diseases other than COVID-19.
Source: Authors' calculations based on The Economist (2021[55]), COVID-19 Excess Deaths Tracker, https://github.com/TheEconomist/covid-19-excess-deaths-tracker.

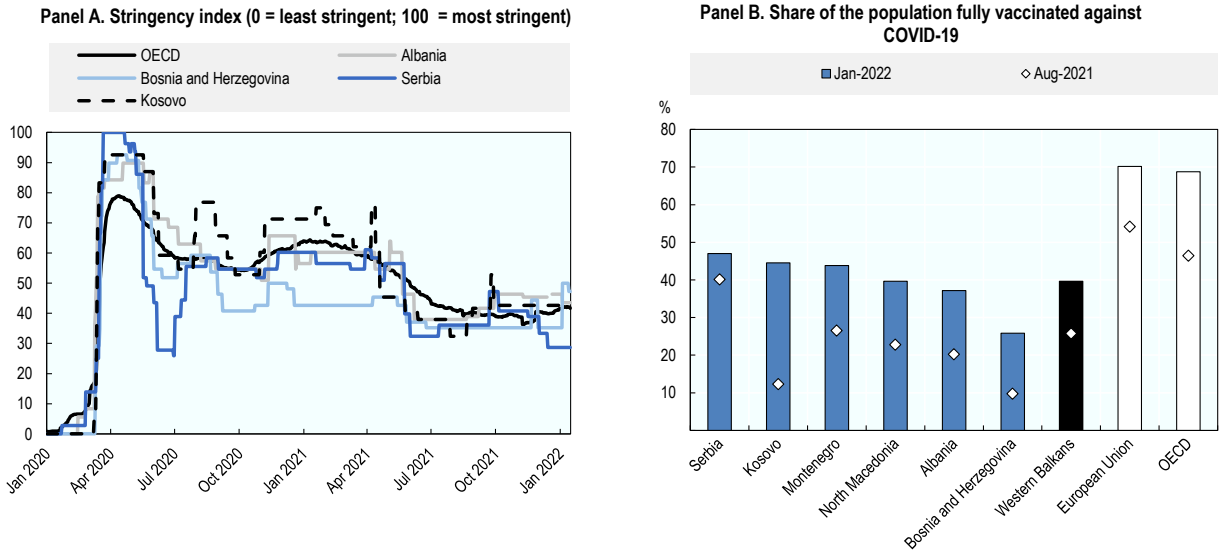
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Restrictions in the Western Balkans were uniformly strict at the start of the pandemic, but diverged over time in response to individual situations. In the pandemic's early months, the region's lockdown and containment measures were among the strongest worldwide. These policies included strict lockdowns and curfews, restricted operations for businesses and the closing of non-essential services. Over time, restriction policies diverged as economies employed different strategies to combat both the health and economic crises in relation to the various waves of COVID-19 cases (Figure 1.18 - Panel A).

Vaccine coverage in the Western Balkans is growing, but still insufficient. The World Health Organization (WHO) set a target of having 40% of the population of each economy worldwide fully vaccinated by the end of 2021 (WHO, 2021[56]). As of January 2022, most of the Western Balkan region has met or surpassed this goal (Figure 1.18 - Panel B). Serbia has the highest share of population fully vaccinated. Kosovo ranks second and has shown strong growth in this respect, having fully vaccinated roughly 30% of its population within the last four months of 2021. At 25.8%. Bosnia and Herzegovina had the lowest level. To catch up with OECD and EU countries, the region should now work towards the next WHO target of 70%, to be achieved by mid-2022.

Figure 1.18. Western Balkans' vaccine coverage is in line with current WHO targets but still requires work

Stringency index (0 = last stringent; 100= most stringent) (Panel A) and share of the population fully vaccinated against COVID-19 (%), 2021 (Panel B)



Source: Hale et al. (2022[57]), Oxford COVID-19 Government Response Tracker, www.covidtracker.bsg.ox.ac.uk/r; Ritchie, et al. (2022[58]), Coronavirus Pandemic (COVID-19), https://ourworldindata.org/.

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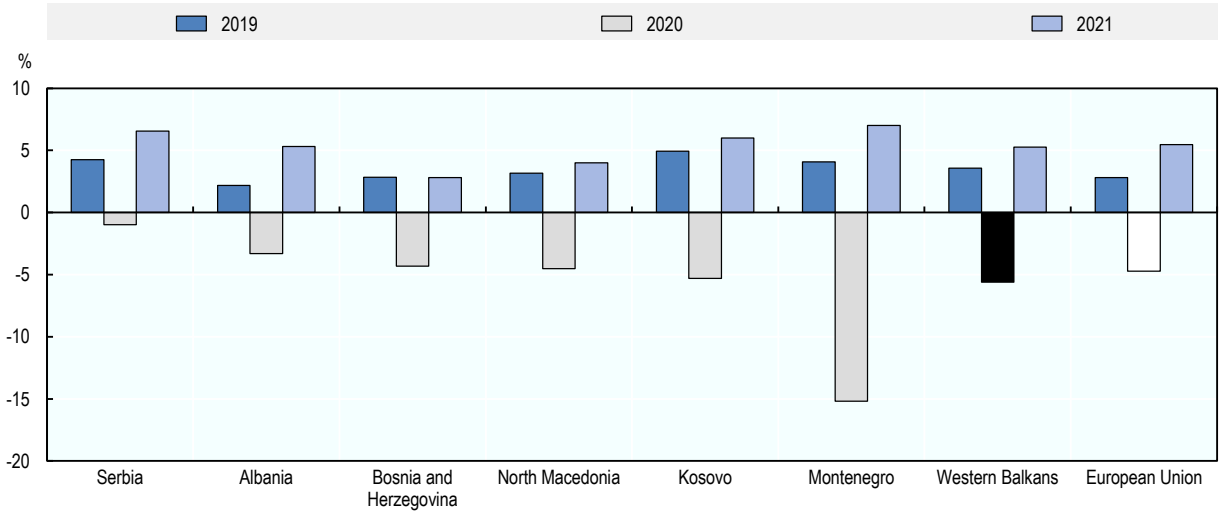
Various assistance measures have been employed across the Western Balkans to support businesses and cushion the social impact on citizens. To preserve business continuity and employment, many government institutions offered subsides to local businesses while also allowing delayed, or cancelling, tax payments. Across the Western Balkans, about 56% of firms received or expected to receive economy-wide or local government assistance (World Bank, 2021[59]). Direct assistance, often in the form of extended unemployment benefits, was also offered by most governments, many of which also attempted to target vulnerable workers or the self-employed. Additional policies enacted in the Western Balkans included financial support for small and medium enterprises (SMEs), artists and sports clubs as well as support to the elderly, people with disabilities and those without homes.

1.6.2. Economic impact

Despite varying severity of the economic downturn in 2020, Western Balkan economies were able to achieve growth above pre-pandemic levels in 2021. Montenegro was the hardest hit, contracting by 15.2% in 2020, while most other regional economies experienced lower but similar contractions. Serbia was able to avoid a strong downturn thanks to robust fiscal and monetary stimulus policies (Figure 1.19). Despite several new waves of COVID-19, the recession turned around in 2021 with most of the economies showing growth near 5% – almost double pre-pandemic levels. At 2.8%, Bosnia and Herzegovina's projections for 2021 are the weakest of the region, although more recent figures from the World Bank and the Central Bank of Bosnia and Herzegovina put annual growth closer to 5% (World Bank, 2021[60]).

Figure 1.19. Despite varying downturns in 2020, recovery was consistent across the Western Balkans in 2021

Real GDP growth rate (%)



Source: IMF (2021[61]), World Economic Outlook: October 2021 Edition, https://www.imf.org/en/Publications/WEO.

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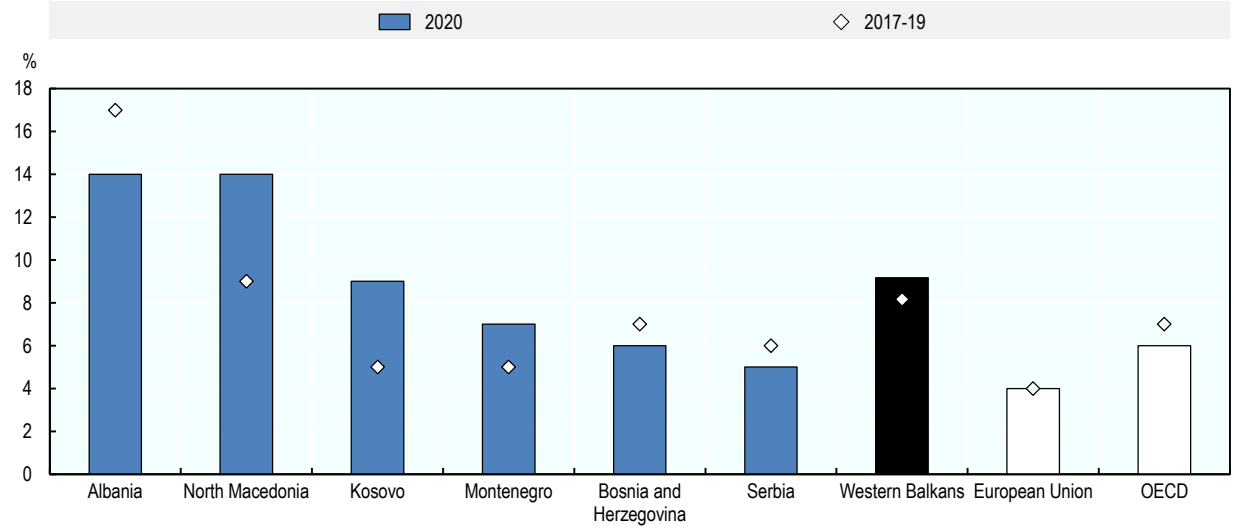
Despite recent growth, important challenges to Western Balkan recovery still remain. Setting public finances back on track to balance COVID-19 stimulation policies will be necessary to avoid further accumulation of public debt. On average, net government debt in 2020 was at 50.3% of GDP in the Western Balkans, up 8 percentage points from 2019 (IMF, 2021[61]). To now reduce debt, the region should reprioritise spending by streamlining state aid, addressing long-term liabilities in the pension system, improving management of SOEs, and enhancing the management of public investment to maximise its efficiency and impact on growth. Bringing people back to the labour market and reforming education and governance could also help boost potential growth (World Bank, 2021[62]).

1.6.3. Social impact

Despite the pandemic and the estimated increase in poverty, people in the Western Balkans seem more optimistic about their personal situation. Studies estimate that the poverty headcount in the region increased by 4 percentage points in 2020, with around 92 000 households falling into poverty (World Bank, 2021[62]). In terms of subjective poverty, North Macedonia and Montenegro recorded increases in the number of persons reporting high levels of food and shelter insecurity during the pandemic years. Albania saw a large reduction in self-reported levels of poverty, as did Bosnia and Herzegovina and Serbia but to lesser degrees (Figure 1.20).

Figure 1.20. Experiences of subjective poverty varied across the Western Balkans

People reporting not having enough money to buy food or for adequate shelter or housing (%)



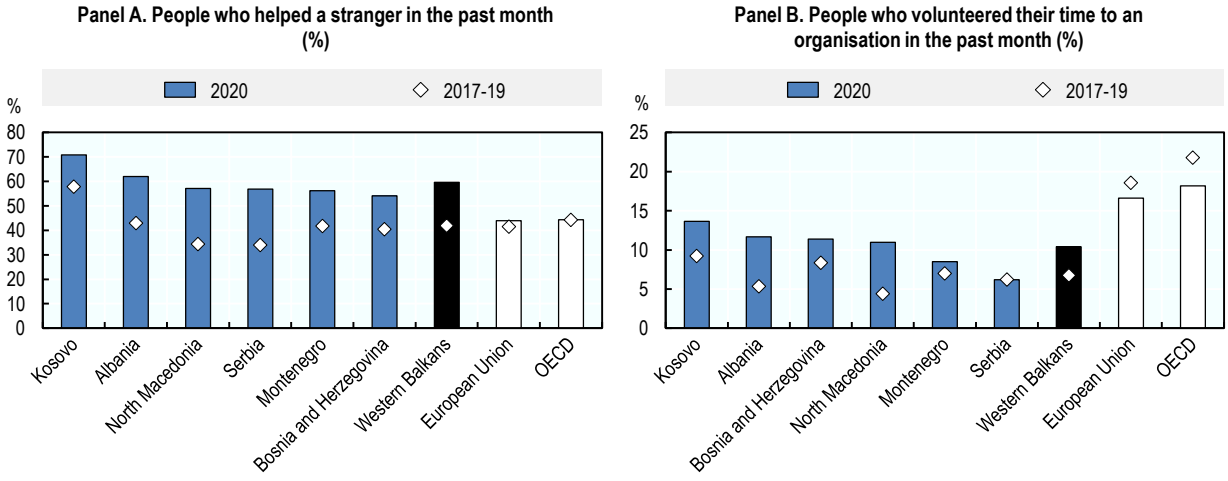
Note: During statistical analysis, results have been weighted to reflect geographic and demographic distributions of the population. Statistical tests were conducted to verify that the differences between 2020 and 2017-19 averages are statistically significant.
Source: Authors' calculations based on Gallup (2021[63]), *Gallup World Poll* (database), https://www.gallup.com/home.aspx.

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While social life has been restricted, the COVID-19 outbreak seems to have instilled a stronger sense of community across the Western Balkans. In 2020, 59.6% of people reported having helped a stranger in the past month, an increase of 17.6 percentage points compared to 2019. In contrast, this figure remained almost stable in OECD and EU countries (Figure 1.21 - Panel A). Similar insights emerge from the number of people reporting having volunteered their time to an organisation in the past month. For both EU and OECD averages, volunteer time decreased in 2020 compared with the 2017-19 average. Conversely, this figure grew to 10.4% in 2020 in the Western Balkans, surpassing the previous average (Figure 1.21 - Panel B).

Figure 1.21. During the COVID-19 pandemic, mutual assistance increased in the Western Balkans

People who helped a stranger in the past month (%), (Panel A) and People who volunteered their time to an organisation in the past month (%), (Panel B)



Note: During statistical analysis, results have been weighted to reflect geographic and demographic distributions of the population. Statistical tests were conducted to verify that the differences between 2020 and 2017-19 averages are statistically significant.
Source: Authors' calculations based on Gallup (2021[63]), *Gallup World Poll* (database), https://www.gallup.com/home.aspx.

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1.6.4. Groups most affected by the COVID-19 pandemic

School closures have exacerbated already severe learning inequalities between the poorest and richest students in the Western Balkans. Pre-COVID-19, the achievement gap between the poorest (lowest income quintile) and richest (top income quintile) students was estimated at 1.5 years of schooling (68 PISA points). In a post-COVID educational environment, this gap is projected to increase to almost 2 years (76 PISA points), reflecting that students from poorer backgrounds are less likely to benefit from remote learning modes. While students in the top ESCS quintile have almost universal access (97.5%) to a computer they can use for school, the figure plummets to just 65.2% for their peers in the bottom quintile. – a difference of 32.3 percentage points (World Bank, 2020[13]).

The pandemic widened inequality gaps across Western Balkan economies, negatively affecting already vulnerable groups. Across the region, the pandemic's impact was the greatest on the incomes of households close to poverty line (World Bank, 2021[62]). In 2020, a full 49% of households in the lowest income group reported not having enough money to buy food, up from 44% a year earlier. Similarly, those among this group not able to secure adequate shelter increased by 6.7% in 2020. The pandemic severely affected the daily life of Roma people, who live in marginalised communities and suffer from poverty and social exclusion. An estimated 37.8% of Roma in the region[9] had to stop their income-generating activities, mostly because they were involved in informal employment (ERGO Network, 2020[64]).

The pandemic highlighted the vulnerability of workers with no access to social protection

Informal employment, which offers no access to social protection, is a major risk to individual income security; associated vulnerability worsened during the pandemic. In 2019, Informal employment accounted for about 28.1% of total employment in the Western Balkans.[10] This share decreased across all economies in 2020 (ILO, 2021[20]), likely reflecting that those in the informal sector dropped out of the labour market due to disturbances from containment policies. The formal sector has

been more resilient because of direct government efforts to mitigate income losses. In general, the protection of informal workers is estimated to have been less effective than it could have been (World Bank, 2021[62]).

The pandemic also highlighted the vulnerability of self-employed workers. Among self-employed workers, which make up 29.7% of total employment in the region, about 44.4% are estimated to be in informal employment (Eurostat, 2021[9]; World Bank, 2021[4]). Many lack the social protection to protect them from economic shocks; during the pandemic, they are assumed to have suffered an income shock twice as large as that of salaried employees (World Bank, 2021[62]).

Gender inequalities have widened following the pandemic

Women in the Western Balkans, who were already largely excluded from labour markets, experienced particular hardship during the pandemic. At 28.1% in 2020, female employment among those aged 15+ years declined from previous years, widening the gap against OECD (43.5%) and EU (40.5%) averages (ILO, 2021[20]). At the same time, women were shouldering much of the burden at home, with school closures adding extra burden related to childcare and education to longstanding gender inequalities in unpaid work. Some 66.5% of women reported increased time spent on unpaid domestic work, compared with 57.5% for men. The possibility of violence at home also put women at risk during the pandemic: 11% of women in the region report believing that domestic violence is justified under certain circumstances and 22.3% having experienced physical or sexual violence in their lifetime; in contrast, EU averages are 6.7% and 20.9%, respectively (OECD, 2021[21]). Overall, women's psychological and mental health was more affected by the pandemic: 38.0% of women report being affected compared with 31.8% of men (UN Women, 2020[65]).

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Notes

[1] A socially cohesive society is one that creates the ability and willingness of its members to undertake collective action to improve societal well-being of all. To achieve a socially cohesive society, it is important to offer its members the opportunity to participate, to create a sense of belonging and promote trust among people, and to take action against exclusion and marginalisation (OECD, 2011[25]).

[2] As part of the MDR process, Vision and Challenges 2030 workshops took place in Albania, Kosovo, North Macedonia and Serbia between February and early March 2020. Due to the outbreak of the COVID-19 pandemic, the foresight workshop was not held in Bosnia and Herzegovina. All workshops followed the same methodology and aimed at developing suggestions for a vision 2030, including vision statements, key dimensions of success and challenges. Workshops were jointly organised by the OECD, the Swedish International Development Cooperation Agency and government representatives.

[3] The National Diaspora Strategy 2021-2025 also aims to reorganise the management of migration flows, reform electoral citizens to enfranchise Albanian voters abroad, and promote identity, language, culture and art.

[4] Definition from the Council of Europe.

[5] The EU acquis is the accumulated legislation, legal acts and court decisions that constitute the body of European Union law.

[6] EU figure from (Werner, 2017[66]). For comparison, district heating accounts for about 14% of heat delivered in Germany and 5% in France (Euro Heat & Power, 2019[67]).

[7] Carbon pricing integrates the real costs of CO2 emissions, thereby raising the cost of carbon-intensive assets. In principle, this should steer consumption and investment towards low-carbon assets and goods, encourage energy savings, improve energy efficiency, and stimulate investment by households and firms in renewable energies and other low-carbon technologies.

[8] The EU was the main partner of the Western Balkans, for both exports (69%) and imports (54%) in 2020 (Eurostat, 2021[9]).

[9] Western Balkans average does not include Montenegro or Albania.

[10] Western Balkans average does not include Montenegro or Kosovo; Albania is included only in the 2019 average.

Part I Education and competencies

2 Boosting education and competencies in the Western Balkans

Better education and more relevant competencies are prerequisites to boosting productivity, creating jobs, encouraging civic participation and making the Western Balkans an attractive place to live, work and invest in. This chapter puts forward policy recommendations to strengthen education systems at all levels and to build competencies both within and beyond formal education. Over recent decades, Western Balkans economies have made important progress in modernising their education systems, notably with the development of core competency-based curricula. However, people across all age groups still lack competencies relevant for the labour market and for civic participation more broadly. Boosting youth and workforce competencies can foster innovation and unlock new opportunities. Across diverse policy areas, priority should be placed on technical, cognitive, social and transversal competencies, and on creating strong partnerships, especially between the education system and the private sector.

The Initial Assessment of this Multi-dimensional Review of the Western Balkans identified education and competencies for economic transformation and civic participation as the top priorities for all economies in the region (OECD, 2021[1]). While economic structures vary significantly, finding new sources of productivity growth and engines for future transformation is an urgent task for all the regional economies. Good jobs are scarce, and young people continue to leave. Boosting youth and workforce competencies can encourage innovation and unlock new opportunities to overcome these trends. The more unfavourable an economy's current wage-to-productivity ratio is, the more this task becomes urgent, as new and more productive activities must be found to build a strong economy. Beyond economic opportunity, education matters for civic engagement and respect for diversity and for the rule of law – as relatively young and ethnically diverse democracies, this is particularly important for the regional economies.

High quality education tops the list of aspirations for the future in the region. Quality education is an essential element of quality of life for all: young people in school; families; those who want to have opportunities for their own children; those who want to have children in the future; and those who depend on younger generations to shape the future of their societies. With impressive unanimity, quality education ranked topmost in all four aspirational foresight workshops held in the region as part of the Initial Assessment of this review (OECD, 2021[1]).[1] The workshops gathered a range of participants from various ministries and agencies, the private sector, academia and civil society, who developed vision statements based on narratives of the lives of future citizens.

This report builds on an extensive peer-learning process with practitioners in the region and expert assessment to provide suggestions for strengthening education and competencies in the Western Balkans. Building on the Governmental Learning Spiral methodology (Blindenbacher and Nashat, 2010[2]), two peer-learning events brought together experts and practitioners from across the region and beyond to prioritise among challenges and solutions, develop ideas for action, and learn from each other (Box 2.1).

Generating the competencies that can drive economic transformation and future quality of life will require investment and reform in formal education for the young, but also beyond for adults. Formal education must ensure that younger generations are future-ready, have the right set of competencies to thrive in tomorrow's labour market, and agility to adapt to changing circumstances and new opportunities (Table 2.2). The key issues include quality of teaching, digitalisation and digital skills, the quality and relevance of vocational education and training, curricula modernisation, access and equity, financing, governance and early childhood education. In the age of rapid technological progress and the current need for a green transformation (Chapter 14), many of the skills acquired in formal educational become obsolete, creating a great need for lifelong learning. Beyond formal education, the focus was on boosting competencies of working-age adults by creating opportunities for adult learning, leveraging on foreign direct investment and tapping into a relatively large diaspora.

Successful implementation of selected policy priorities calls for a broad reform that improves the existing education systems, links strategies for competencies with other policy areas, and puts a high premium on building partnerships with various stakeholders, especially the private sector. Economies can reap significant benefits by improving administrative setup within the formal education setting, as well as increasing access to various education levels and improving the quality of teaching. At the same time, building of competencies needs to be integrally linked with other policy areas. Bringing about the green energy transition requires an education system to equip a future workforce with the skills needed to thrive in a transformative and green economy, and active labour market policies to reskill and upskill persons affected by the transition. Finally, reforming education should be a multi-stakeholder effort, implying strong partnerships with various stakeholders, especially the private sector. The private sector provides jobs to people at the end of their education cycle, informs the education system on the needed competencies, and creates opportunities for students and teachers to acquire new competencies, hence the full potential of such collaboration needs to be explored.

This regional chapter on education and competencies is divided into four sections. Section 2.1 looks into which competencies will matter for the Western Balkans in the future. Section 2.2 provides an overarching analysis of key outcomes focusing on formal education and acquisition of competencies beyond formal education. Sections 2.3 and 2.4 analyse policy challenges related to current outcomes and provide policy suggestions that may apply to all regional economies, albeit to different degrees. Whenever possible, policy suggestions are complemented with other country examples to support learning from others. The regional outcomes of the peer-learning workshops constitute the key analytical basis for the present report and have been used to guide the policy sections 2.3 and 2.4.

While the policy priorities discussed under the education and competencies are those that have been selected in the peer-learning as most important, this chapter recognises that there are many other important issues facing Western Balkan education systems that are not addressed here in-depth. For example, making investments in higher education, such as ensuring equal access for all groups and improving labour market relevance of higher education track, is critical for generating new knowledge and foster innovation. As most research happens within universities, the role of higher education and research in creating knowledge and ensuring knowledge transfer is a key basis for productivity gains and - both technical and societal innovation. New knowledge that is developed within universities forms a basis for next generations. While there are variations in higher education quality across the Western Balkans, the lack of equity in access to tertiary education for students coming from disadvantaged groups or backgrounds particularly affects the region. At the same time, low employment rates of young graduates show that tertiary education does not equip the young with appropriate and adequate competencies (Eurostat, 2021[3]).

Box 2.1. Multi-dimensional Reviews of the Western Balkans: From Analysis to Action through peer-learning

Peer-learning, as implemented following the Governmental Learning Spiral methodology was a key process in the Multi-dimensional Review project. With three overarching aims – to identify key issues hampering build-up of competencies at the regional and economy level; to put forward suggestions for future policy actions at the economy level; and to exchange policy experiences – the process brought together key stakeholders from the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia). The peer-learning on education and competencies comprised two rounds of workshops (Workshop One, 11-12 February 2021 and Workshop Two, 15 April 2021), each attended by 24 experts (about five per economy) representing various societal perspectives, including government, civil society, academia and businesses.

Workshop One started with a regional plenary to select the most important and most urgent issues related to education and competencies in the region (Table 2.1). Quality of teaching received the highest number of votes. This regional chapter and economy-specific chapters (Chapters 2-7) provide a deeper analysis of the selected issues and policy suggestions clustered in two themes: improving the quality and relevance of formal education and boosting the quality of beyond formal education.

Following discussion at the regional level during the Workshop One, participants worked in economy-level groups to start developing ideas for action. These activities became the basis for the Workshop Two. During the two workshops of Round One, participants from each economy met to further specify actions, processes and requirements pertaining to their action plans. In Workshop Two, participants from the five economies reconvened to present progress in developing action plans and to pose to other participants the most pressing question in areas where they lack policy experience. Following the peer-learning exchange at the regional level, participants reassembled in their economy groups to suggest monitoring indicators relevant for their respective action plans.

Table 2.1. Results from the voting on the most important and urgent issues

	Issues	Votes
1	Quality of teaching	********
2	Infrastructure / Technology / Digitalisation of education	******
3	Vocational education and training quality / Training in professional skills	******
4	Key competencies	****
5	Learning outcome-based curricula	***
6	Lifelong learning	***
7	Economy and education	**
8	Access to education	**
9	Funding	**
10	Sharing responsibilities between government and private sector	**

Source: OECD peer-learning workshops.

Source: Blindenbacher and Rielaender (forthcoming[4]), *How Learning in Politics Can Work*; Blindenbacher and Nashat (2010[2]), *The Black Box of Governmental Learning The Learning Spiral - A Concept to Organize Learning in Governments*, World Bank Group, Washington, DC, https://doi.org/10.1596/978-0-8213-8453-4.

2.1. Why and which competencies matter for the Western Balkans?

Shared domestic challenges in the Western Balkans such as population ageing and migration are having a major impact on the composition competencies. Population ageing indicates a growing share of the population may not possess the competencies needed in the labour market. In addition, a large elderly population is increasing the need for certain professions, including doctors and nurses, which are in shortage due to high migrations abroad. People of all education levels are migrating, creating significant skills shortages, including technical skills (e.g. construction, mechanical and electrical), which are an important asset for any emerging economy.

Technological progress and climate change are further creating a demand for new competencies, opening up new opportunities for the Western Balkans. As a result of the technological progress, including digitalisation, e-commerce and gig-economy, new sectors and jobs are emerging while others are shrinking, changing the competencies needed in today's economies. Even within existing occupations, the tasks performed by workers and the competencies needed to carry them out are undergoing significant change (OECD, 2017[5]). Additionally, these trends are changing the ways governments work and deliver services. The COVID-19 pandemic, with its global shift to teleworking and digitalised services, has further accelerated the use of new technologies. Likewise, as the regional economies are in a dire need for green transition (Chapters 14-19), new skills will be needed. The successful transition to a low-carbon economy will only be possible by ensuring that workers are able to transfer from areas of decreasing employment to other industries (Table 2.2).

Beyond technical competencies, cognitive and socio-emotional, as well as transversal competencies also matter (Table 2.2). Employers in modern economies expect prospective employees to have not only general knowledge acquired during the training provided in the academic curriculum but also analytical problem-solving skills, communication skills, management skills, presentation abilities, and the predisposition for lifelong learning and creativity. Moreover, employers value future employees capable of teamwork with abilities that result from applying general knowledge in practice. Creativity and problem solving are also increasingly important, as are entrepreneurial skills and leadership (Gawrycka,

Kujawska and Tomczak, 2020[6]). The acquisition of such competencies needs to start already at the early levels. The cognitive and socio-emotional skills acquired in the first five years of a child's life have crucial and long-lasting impacts on later outcomes (OECD, 2021[7]).

Table 2.2. Key competencies for the future

Technical competencies		Cognitive and social competencies	Transversal competencies
Digital competencies	**Green competencies**		
• Coding and software development • Artificial intelligence and machine learning • Cloud computing • Cyber security • Information and data literacy and analysis • Project management • Digital content creation • Finding and connecting to potential customers through social media • Solving technical problems and creatively using digital technologies	• Environmental awareness • Engineering and technical skills in eco-buildings, renewable energy, and energy-efficiency • Waste collection, treatment and disposal activities and materials recovery • Supply chain skills • Operation management skills, including in lean production • Sustainable farming, local production and eco-tourism	• Analytical skills • Critical thinking • Problem solving skills • Leadership and decision-making skills • Self-discipline and self-motivation • Self-esteem and empathy • Enthusiasm and perseverance • Stress management • Negotiation skills	• Communication • Teamwork • Organisational skills • Presentation skills • Openness and respect for diversity • Ability to locate and access information • Predisposition for lifelong learning and creativity • Establish and maintain networks

Source: Barclays (2021[8]), Emerging digital skills, https://digital.wings.uk.barclays/digital-learning-blog/emerging-digital-skills/; European Commission (2022[9]), The Digital Competence Framework 2.0, https://joint-research-centre.ec.europa.eu/digcomp/digital-competence-framework-20_en; OECD (2021[7]), OECD Skills Outlook 2021: Learning for Life, https://dx.doi.org/10.1787/0ae365b4-en; OECD/Cedefop (2014[10]), Greener Skills and Jobs, https://dx.doi.org/10.1787/9789264208704-en; OECD (2019[11]), Future of Education and Skills 2030 - A Series of Concept Notes, https://www.oecd.org/education/2030-project/teaching-and-learning/learning/learning-compass-2030/OECD_Learning_Compass_2030_Concept_Note_Series.pdf; OECD (2019[12]), Transformative Competencies for 2030 - Conceptual Learning Framework, https://www.oecd.org/education/2030-project/teaching-and-learning/learning/transformative-competencies/; UNESCO-UNEVOC (2022[13]), TVETipedia Glossary, https://unevoc.unesco.org/home/TVETipedia+Glossary/filt=all/id=577; UNESCO (2021[14]), Assessment of socioemotional skills among children and teenagers of Latin America, https://unesdoc.unesco.org/in/documentViewer.xhtml?v=2.1.196&id=p::usmarcdef_0000377512_eng&file=/in/rest/annotationSVC/DownloadWatermarkedAttachment/attach_import_39234ca6-908e-4ad5-81f7-3098560848ee%3F_%3D377512eng.pdf&locale=en&multi=true&ark=/ark:/482; UNIDO (2021[15]), What are green skills?, https://www.unido.org/stories/what-are-green-skills#:~:text=Simply%20put%2C%20green%20skills%20are,sustainable%20and%20resource%2Defficient%20society.

2.2. Developments in the Western Balkans in building key competencies: Progress and challenges

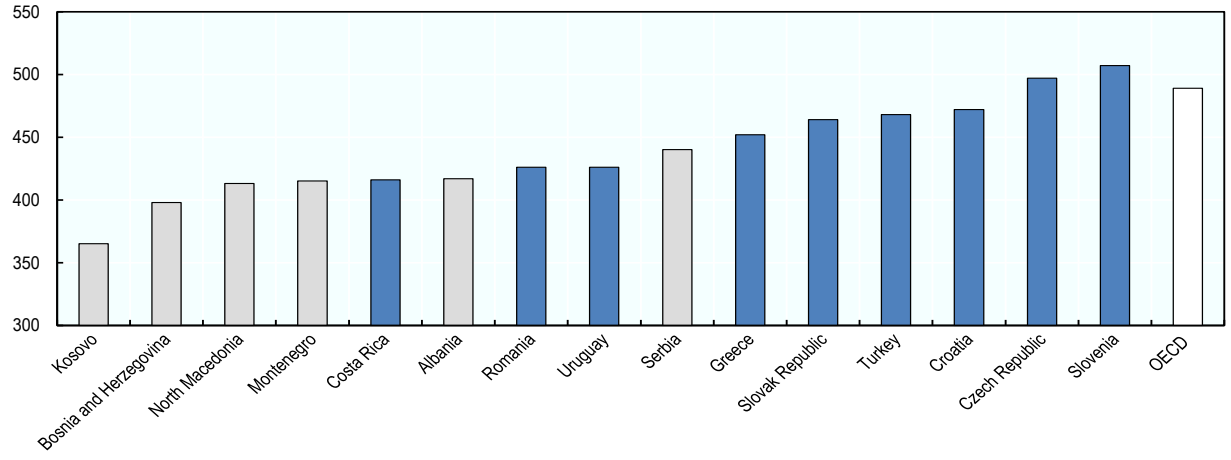
2.2.1. *People in the Western Balkans continue to lack competencies needed for economic transformation and civic engagement*

The OECD Programme for International Student Assessment (PISA) shows the need to increase students' outcomes in reading, mathematics and science in the Western Balkans. With the exception of Serbia, most Western Balkan economies trail behind international benchmarks (Figure 2.1). On average across Western Balkan school systems, less than half (46%) of students scored above baseline proficiency in reading (PISA Level 2 and above) compared with three quarters (77%) in OECD countries and a similar proportion (76%) in EU countries (Figure 2.2) (OECD, 2020[16]). The share of Western Balkan students who achieved minimum proficiency in the other two testing subjects (mathematics and science) ranged from about 23% to 62%, depending on the economy and the subject. In both cases, this is again considerably below OECD averages of between 76% and 78%. A negligible share of students in all economies were among the "top achievers" in the PISA assessment, scoring

above Level 5. Finally – and most worryingly – limited progress or even regress has been noted in many economies across the different PISA assessment. In North Macedonia, low performers (those who score below Level 2, the minimum level of proficiency) increased by nearly 7% between 2000 and 2015 (OECD, 2016[17]).

Figure 2.1. There is scope to further improve the education outcomes in the Western Balkans

Mean science scores, 2018

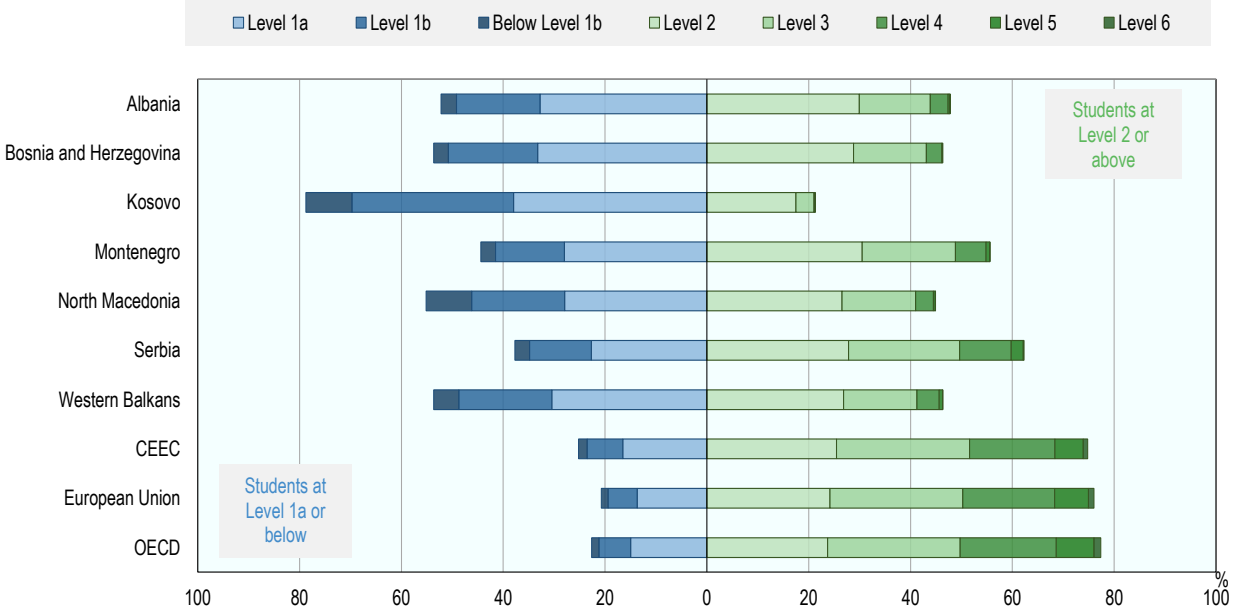


Source: OECD (2021[18]), PISA 2018 Database, www.oecd.org/pisa/data/.

StatLink https://stat.link/lta2c8

Figure 2.2. Proficiency levels of students in reading is trailing behind benchmark economies

PISA reading proficiency scales



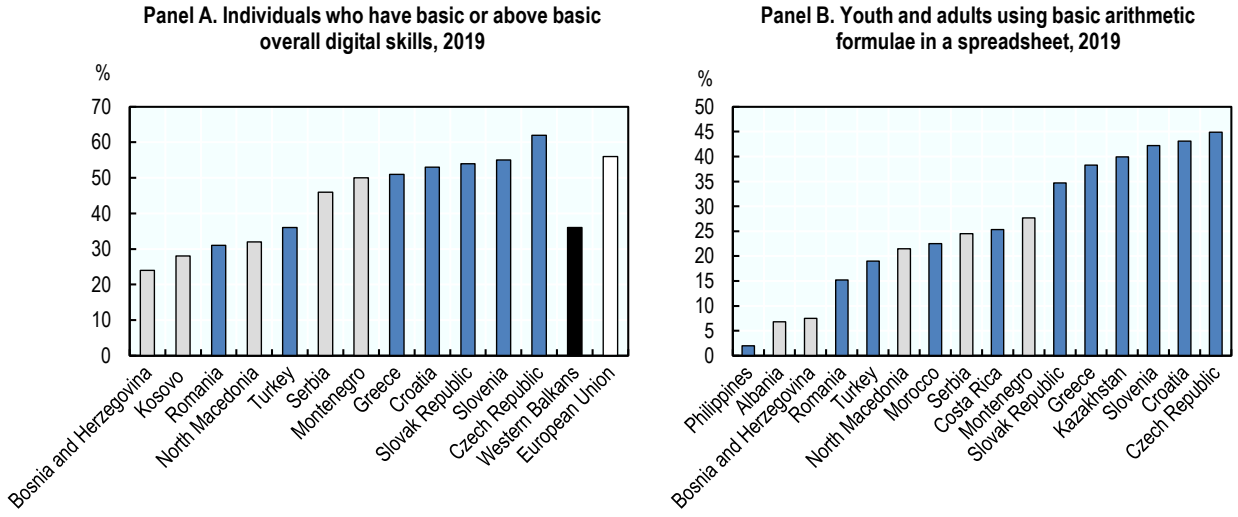
Source: OECD (2020[16]), Education in the Western Balkans: Findings from PISA, https://dx.doi.org/10.1787/764847ff-en.

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To unleash the full potential of digital technologies, there is further scope to increase digital skills of the population in the Western Balkans – both among students and adults. Apart from Serbia and Montenegro, the share of individuals with basic or above basic digital skills is relatively low in comparison to the benchmark economies from the European Union (Figure 2.3 – Panel A). Some of the Western Balkan economies have a relatively small share of people who have used basic arithmetic formulae in a spreadsheet, indicating lack of key computer skills, which are important requirements for many employers (Figure 2.3 – Panel B).

Figure 2.3. There is further scope to increase digital and technical computer skills in the Western Balkans

Individuals who have basic or above basic overall digital skills 2019 (Panel A), and youth and adults using basic arithmetic formulae in a spreadsheet, 2019 (Panel B)



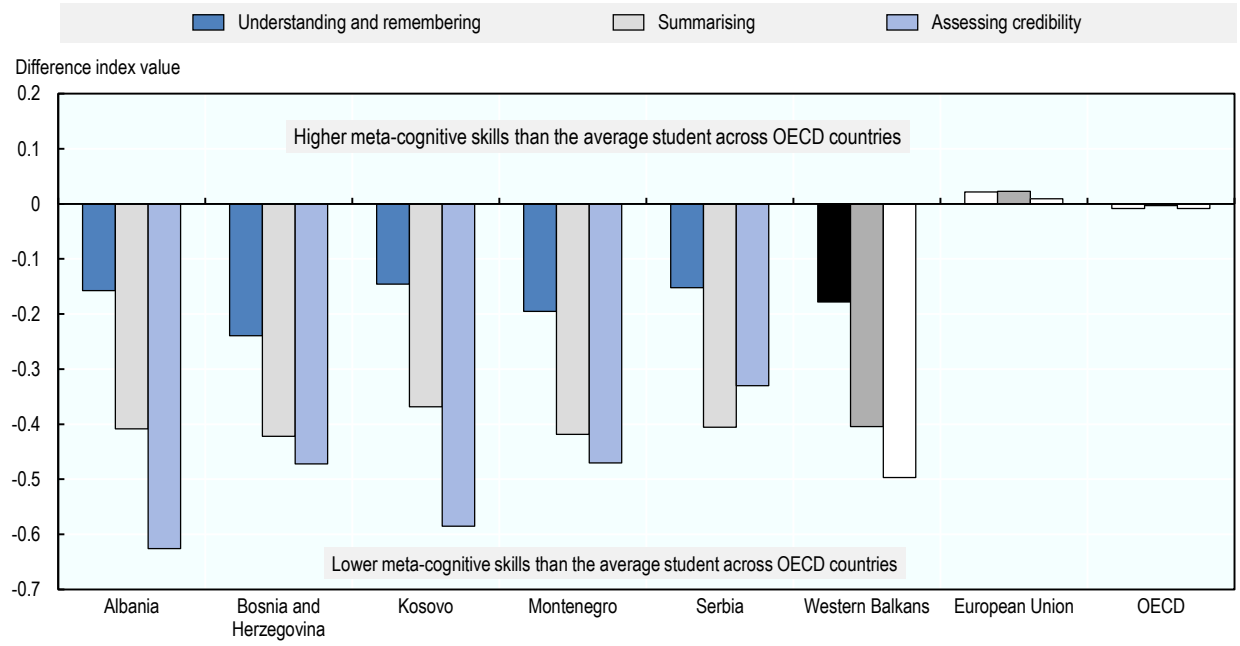
Source: Eurostat (2021[3]), Database, https://ec.europa.eu/eurostat/data/database; UNESCO (2020[19]), UIS Statistics, http://data.uis.unesco.org/.

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The Western Balkan economies should also focus on strengthening meta-cognitive skills, critical cross-cutting competencies. PISA 2018 defines meta-cognitive skills as knowing how to guide one's own understanding and learn in different contexts. Having meta-cognitive skills is crucial in modern societies because they help individuals navigate, interpret and solve unanticipated problems, important especially on today's fast-evolving labour markets (OECD, 2020[16]). Students in the Western Balkan economies rank well below the OECD average on this measure (Figure 2.4).

Figure 2.4. Meta-cognitive skills in reading are relatively low in the Western Balkans

Meta-cognitive skills relative to OECD countries



Source: OECD (2020[16]), Education in the Western Balkans: Findings from PISA, https://dx.doi.org/10.1787/764847ff-en.

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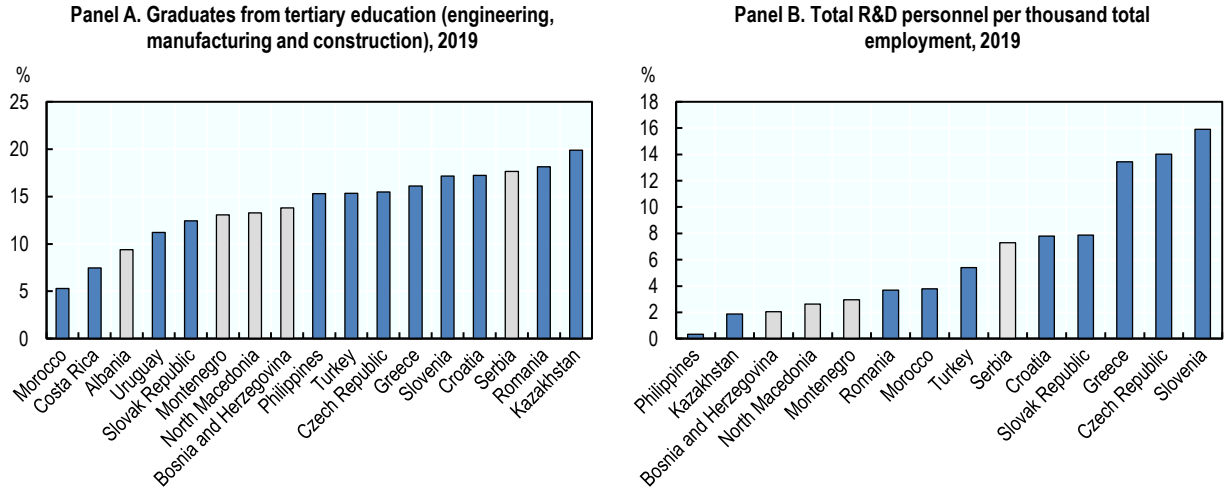
2.2.2. *Relatively large skills mismatch and skills gaps are rendering the investments in education ineffective and slowing down innovation*

Many adults lack competencies in demand in the Western Balkans labour market. Employer surveys, such as the World Bank's Skills Measurement Program, indicate that hiring difficulties in the region often stem from skills shortages: a high share of firms surveyed state that the education system does not provide the skills needed in the current labour market (World Bank, 2021[20]). In turn, employees surveyed indicate that their education does not prepare them well for the needs of the job market. In some regional economies, tracer studies of VET graduates show that limited practical training and lack of adequate equipment impact the skills acquired during education (Section 2.3.2). In the 2021 Balkan Barometer surveys, about one-quarter of respondents noted that skills acquired during education do not meet the needs of their job (Regional Cooperation Council, 2021[21]).

A lack of tertiary graduates in technical fields affects productivity and innovation. Apart from Serbia, regional economies have a relatively low share of graduates from engineering, manufacturing and construction programmes (Figure 2.5 – Panel A). These types of degrees will be important for economic transformation based on technological development. In terms of research and development (R&D) personnel per thousand total employment, the region trails behind many of the benchmark economies (Figure 2.5 – Panel B).

Figure 2.5. A lack of graduates with technical tertiary backgrounds and of R&D personnel shows an important skills gap

Graduates from tertiary education (engineering, manufacturing and construction), 2019 (Panel A), and total R&D personnel per thousand total employment, 2019 (Panel B)



Note: Panel B: The full-time equivalent (FTE) of R&D personnel is defined as the ratio of working hours actually spent on R&D during a specific reference period (usually a calendar year) divided by the total number of hours conventionally worked in the same period; it can be calculated by individual or by a group.
Source: UNESCO (2020[19]), UIS Statistics, http://data.uis.unesco.org/.

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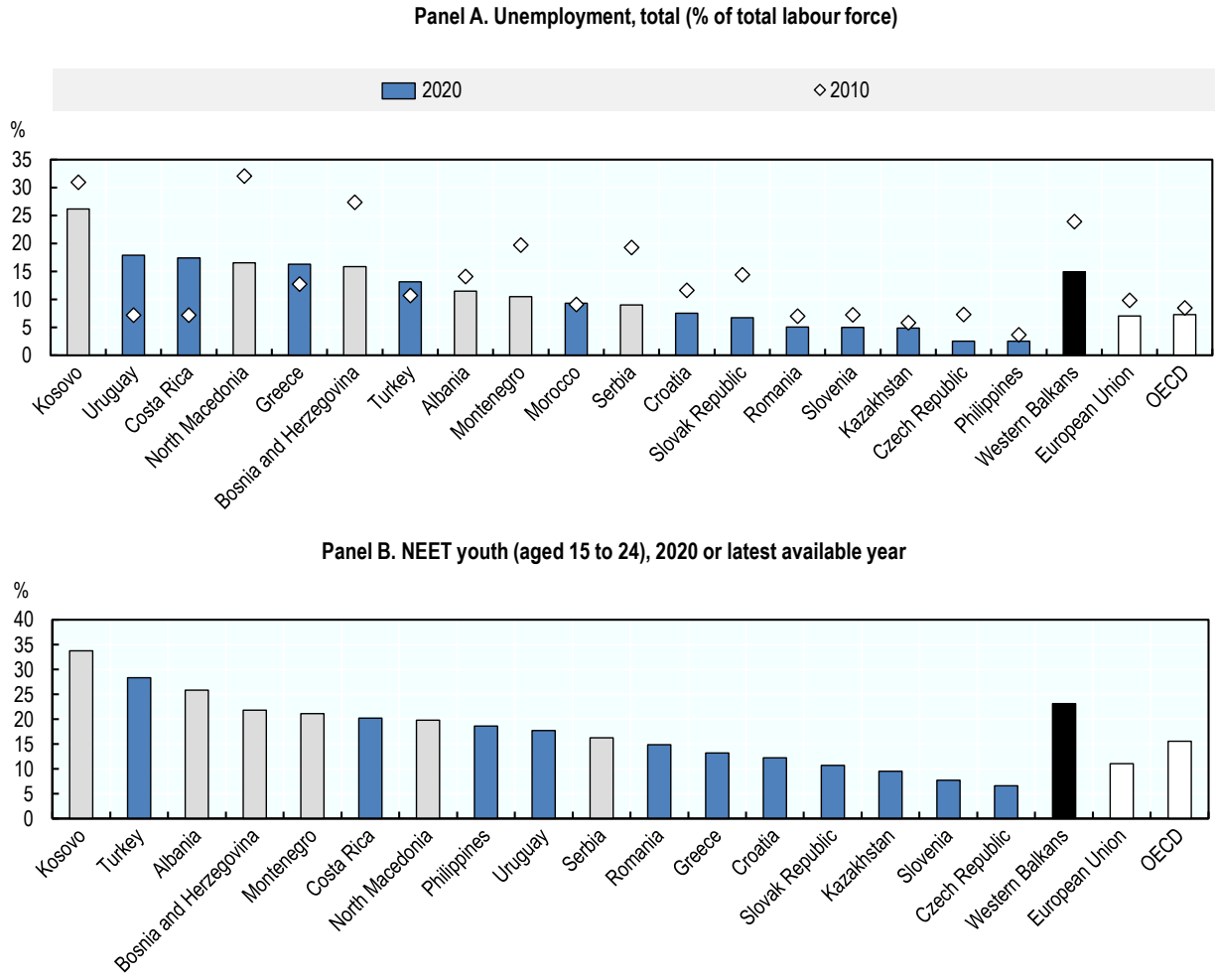
2.2.3. *Weak labour market outcomes limit incentives for investment in education and people lack trust in the educational system*

While the build-up of competencies matters a great deal, weak labour market outcomes limit incentives for investment in education and drive emigration. Despite significant progress in recent years, the unemployment rate in Western Balkan economies remains high at 14.9% in 2020 (Figure 2.6 – Panel A). Moreover, most of the unemployed have been without a job for longer than one year: the share of long-term unemployed in 2019 was 66% (World Bank/WIIW, 2021[22]). This group is at risk of losing valuable skills. Youth, who ought to be a driving force in applying new competencies, are particularly affected by labour market outcomes; at present, youth unemployment rates in the region are among the highest in peer economies and double the OECD average (World Bank, 2021[23]). About one in four young people is without employment or a training activity (Figure 2.6 – Panel B). In the latest Balkan Barometer survey, only 30% of respondents stated they had been able to find a job within one year of graduation; for 20% of respondents, it took two or more years to secure their first job (Regional Cooperation Council, 2021[21]).

Meritocracy and equality of opportunity are also critical incentives for investment in education and skills attainment. A high share of people in the Western Balkans region do not believe that knowledge and skills are the main drivers of life success. In the 2016 Life in Transition Survey, fewer than 20% of low- and middle-income respondents agreed that intelligence and skills are the most important factors for success and fewer than 40% agreed that hard work brings success. Instead, nearly 50% of low- and middle-income respondents agree that political connections are the main success factor (EBRD, 2016[24]). In the 2021 Balkan Barometer, 54% of respondents in the region identified knowing the right people as the key success factor in life (Regional Cooperation Council, 2019[25]).

Figure 2.6. High unemployment and weak job prospects remain a major challenge, especially for youth

Unemployment rate, total (% of total labour force) (Panel A), and youth not in employment education and training (NEET), % of youth population (aged 15-24), 2020 or latest available year (Panel B)



Note: Panel A – the latest available year for Albania is 2019 and 2016 for Morocco, 2012 is used instead of 2010 for Kosovo. Panel B – data for Albania and Uruguay are for 2019, data for Kazakhstan is for 2016.
Sources: Kosovo Agency of Statistics (2021[26]), *Askdata* (database), https://askdata.rks-gov.net/PXWeb/pxweb/en/askdata/?rxid=4ccfde40-c9b5-47f9-9ad1-2f5370488312; World Bank (2019[27]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators. ILO (2021[28]), *Share of youth not in employment, education or training (NEET) by sex – ILO modelled estimates, Nov. 2019 (%) – Annual* (dataset), www.ilo.org/shinyapps/bulkexplorer45/?lang=en&segment=indicator&id=EIP_2EET_SEX_RT_A.

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2.3. Improving the quality and relevance of formal education

Strengthening the acquisition of relevant competencies at all levels should be a priority. Eight policy areas have been highlighted by regional stakeholders as needing urgent reform during the peer-learning process:

- *Improving the quality of teaching*. The quality of the teaching profession is a key driver of education quality. A previous OECD review of the Western Balkans already identified the importance of investing more to boost the attractiveness of the teaching profession and teacher professional development (OECD, 2021[29]). Recent evaluation and assessment reviews of three Western Balkan education systems (Albania, North Macedonia Serbia and Bosnia and Herzegovina) also underlined the importance of this issue – and of initial teacher preparation in particular (Maghnouj et al., 2020[30]; OECD, 2019[31]; Maghnouj et al., 2019[32]; Guthrie et al., 2022[33]).
- *Strengthening VET*. Many studies underline the importance of reform of the upper-secondary VET system in the Western Balkans (Swiss Agency for Development and Cooperation, 2009[34]; OECD, 2021[29]). As many of the most disadvantaged students in the Western Balkans are directed to this sector (OECD, 2020[16]), VET reforms should be prioritised. In this context, the importance of work-based learning has been given particular emphasis (OECD, 2018[35]).
- *Increasing the use of digital technologies in education.* Use of digital technologies goes beyond use of digital technologies for learning purposes – as a promising area for development of new products and services, use of digital technologies can stimulate students to embark in professions with high potential for growth. The COVID-19 pandemic has created several major challenges. Initially, as schools were closed, it prompted a sudden and unexpected transition to remote learning. Looking ahead to the medium-term challenges of schools reopening and learning recovery, governments recognise that the disruption to learning will have had the greatest effects on the most disadvantaged pupils. More broadly, the situation has highlighted longstanding weaknesses in digital learning capacity in the region, in terms of home and school digital infrastructure and in the capacity of teachers to effectively use digital resources.
- *Updating and modernising curricula to impart relevant knowledge and skills*. Curricula are powerful levers for strengthening student performance and well-being, and for preparing students for future jobs. Having a competence-based curricula is critical to ensure consistency and equity in the delivery of education and to target learning outcomes, skills and competencies to be achieved at each stage of the education process (OECD, 2020[36]). Western Balkan economies have developed competency-based curricula; however, implementation is lagging and teachers and schools need more support to adapt curricula to their own needs.
- *Fostering equitable and inclusive education at all levels*. Equity in education means that personal or social circumstances – such as gender, ethnic origin or family background – are not obstacles to achieving educational potential (fairness) and that all individuals reach at least a basic minimum level of skills (inclusion). The highest performing education systems among OECD countries provide high quality education that is also equitable. In such systems, most students attain high levels of skills, regardless of their background, which translates into better socio-economic outcomes (OECD, 2012[37]). In the Western Balkans, access to and attainment of education need to be improved for the Roma and other minorities, rural residents and students with special needs. In some economies, girls' educational attainment also needs to be improved.
- *Increasing and improving the financing of education*. In the Western Balkans, insufficient funding for education impacts learning outcomes at all levels, particularly early childhood education and care (ECEC) and secondary education (including VET). Even in economies in which public spending on education as a share of GDP is on par with OECD countries, high staff costs – related

to excess numbers of teaching and non-teaching staff – crowd out spending on infrastructure, teaching materials, technology and equipment.

- *Strengthening the governance and co-ordination of education*. Common governance challenges in education in the Western Balkans include weak co-ordination, inadequate data collection and limited use of data to monitor and evaluate education policy.
- *Increasing the access to and quality of ECEC*. A growing body of research points to significant benefits from ECEC in children's development, learning and well-being. High quality ECEC can improve cognitive abilities and socio-emotional development. Children who start their education early are more likely to have better outcomes when they are older, which is particularly important for children from disadvantaged socio-economic backgrounds who have more limited opportunities for learning in their home environment. Providing high-quality childcare also enables increased labour force participation of women, providing parents with better work-life balance. Access to ECEC in the Western Balkans is very limited, especially for the poor and those living in rural areas. The biggest gaps in ECEC enrolment exist for children aged 0-3 years.

2.3.1. *Improving the quality of teaching*

Western Balkan economies are now increasing attention on teaching quality. There is good evidence that teacher quality is one of the single most important factors in schooling quality (Schleicher, 2015[38]). Teacher quality depends on attracting into the teaching profession individuals of high ability, and effectively preparing, motivating and developing those individuals throughout their teaching career. In the Western Balkan economies, improving teaching quality would require better implementation and use of teacher standards to strengthen initial teacher education (ITE), continuous professional development (CPD) linked to teacher appraisal, compensation and career development (Table 2.3).

Table 2.3. Teacher standards in the Western Balkans have been developed, but their use varies

	Year teacher standards were introduced	Level and consistency of implementation
Albania	2013, revised in 2016	Consistent / moderate implementation
Bosnia and Herzegovina	2016-17	Inconsistent / low implementation
Kosovo	2004, revised in 2017	Consistent / moderate implementation
Montenegro	2016	Consistent / moderate implementation
North Macedonia	Developed in 2016	Consistent / low implementation
Serbia	2011	Consistent / moderate implementation

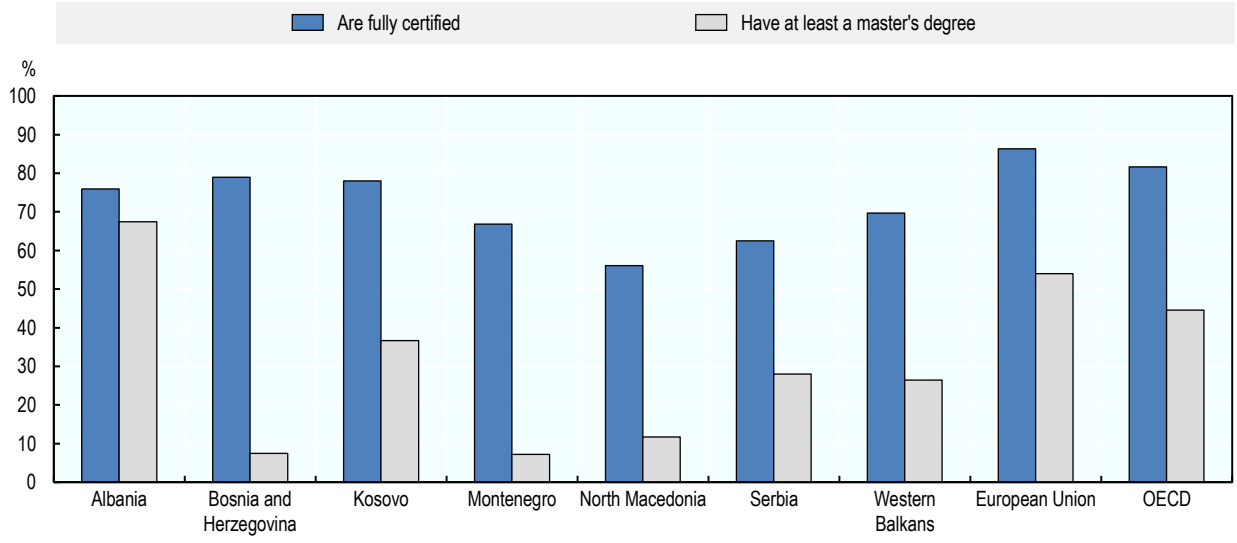
Source: Table 3.2 in OECD (2020[16]). Education in the Western Balkans: Findings from PISA, https://dx.doi.org/10.1787/764847ff-en.

In the Western Balkan economies, the quality and breadth of ITE do not align with adequate standards to train high quality teachers. Entry criteria are neither rigorous nor linked to estimates of the numbers of teachers needed in the future. Often, ITE is insufficiently linked to teacher professional standards and frequently lacks the kind of programme-specific accreditation necessary to ensure high quality provision. Albania, Bosnia and Herzegovina, and North Macedonia have processes for accrediting higher education institutions that provide ITE, but none of the accreditation criteria are specific to teacher education (Maghnouj et al., 2020[30]; OECD, 2019[31]). Moreover practical teaching experience elements of the programmes are often inadequate (Maghnouj et al., 2019[32]). Many teachers, especially those not educated in pedagogical faculties, also lack training in important teaching subjects such as pedagogy, development psychology, teaching methods and other didactics.

Weaknesses in teacher education are also notable in that higher qualification of teachers is not necessarily associated with better student performance. To raise the standard of teaching, many OECD countries are now encouraging or insisting on master's level qualifications for teachers. Data from PISA show that, while it varies by economy in the region, overall, teachers in the Western Balkans are less likely to be fully certified and hold a master's degree than their counterparts in OECD and EU countries (Figure 2.7). In Bosnia and Herzegovina and Montenegro, fewer than 10% of teachers have master's degrees. The region's top PISA performers, Serbia and Albania, are the only regional economies that insist on master's level education for new teachers (OECD, 2020[16]). But that does not always translate into high performance by students: nearly 40% of teachers in Kosovo have such qualifications, yet Kosovar students have one of the lowest PISA scores in Europe.

Figure 2.7. In most regional economies, there is scope to increase teachers' qualifications

% of teachers with relevant qualifications



Note: Teacher certification in North Macedonia and Bosnia and Herzegovina is highly decentralised; in most cases, it requires simply completing ITE. Given this context, it is possible that principals from these systems had difficulty interpreting whether their teachers were "fully certified." Thus the results should be interpreted with caution.
Source: OECD (2020[16]), Education in the Western Balkans: Findings from PISA, https://dx.doi.org/10.1787/764847ff-en.

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Hiring of teachers should be merit-based to incentivise the entry of higher-quality students into the teaching profession. In most economies in the region, the lack of clear guidelines for hiring and firing teachers has also led to the perception that the appointment and promotion of teachers and school staff are based on political affiliation or favours, not (only) on competency (Figure 2.8).

Compensation and career progression are often not linked to teacher performance. In most economies, teacher salaries are relatively low (Table 2.4). In most cases, they tend to be determined by central governments and linked mainly to experience rather than performance (Table 2.4). As a result, salaries cannot act as an incentive for improved teacher performance.

Table 2.4. Teachers' salaries in the Western Balkans are low in comparison to benchmark economies

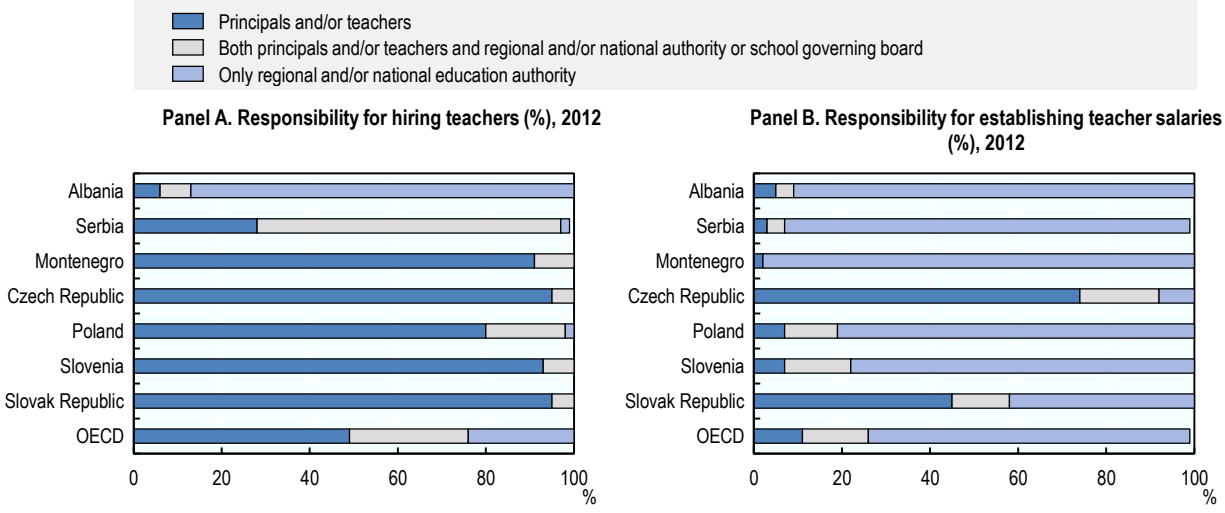
Annual gross statutory starting salaries (EUR) for full-time, fully qualified teachers in public schools, 2019/20

	Early childhood education	Primary education	Lower secondary education	Upper secondary education (general)
Albania	4 189	4 938	5 132	5 423
Bosnia and Herzegovina	6 120	6 528	6 936	8 160
Kosovo	-	-	-	-
North Macedonia	6 624	6 811	6 811	7 111
Serbia	6 330	7 396	7 396	7 396
Czech Republic	12 792	13 608	13 608	13 608
Croatia	-	14 376	14 376	14 376
Greece	13 104	13 104	13 104	13 104
Montenegro	9 715	9 715	9 715	9 715
Poland	8 076	8 076	8 076	8 076
Romania	8 969	8 969	8 969	8 969
Slovak Republic	8 592	10 646	10 646	10 646
Slovenia	19 529	19 529	19 529	19 529
Turkey	7 926	7 926	8 242	8 242

Source: Eurydice (2021[39]), Teachers' and School Heads' Salaries and Allowances in Europe: 2019/20, https://data.europa.eu/doi/10.2797/575589

Figure 2.8. Schools tend to have limited responsibility for hiring teachers and determining teacher salaries

Distribution of responsibilities for hiring teachers (%), 2012 (Panel A) and distribution of responsibilities for establishing teacher salaries (%), 2012 (Panel B)



Note: Percentage of students in schools at which principals reported that "only principals and/or teachers", "only regional and/or national authority", or "both principals and/or teachers" and "regional or national education authority", or "school governing board" has/have considerable responsibility in the tasks.

Source: OECD (2013[40]), PISA 2012 Results: What Makes Schools Successful? Resources, Policies and Practices, http://dx.doi.org/10.1787/9789264201156-en.

StatLink https://stat.link/i94g76

The Western Balkan economies also need to put a stronger spotlight on teachers' CPD. While with the exception of Bosnia and Herzegovina, CPD for teachers is legally mandated in the Western Balkans, in-service teacher training is quite limited and largely dependent on donor financing (ETF, 2018[41]). Even in Serbia, supply constraints (including availability and quality of training) limit the acquisition of CPD. In fact, while Serbian teachers are required to complete 100 credit points of CPD (1 hour of training equals 1 point) over 5 years, in 2017, less than half of teachers had achieved 80 credit points over the reference period (Maghnouj et al., 2019[32]). A survey of teachers found that lack of financial resources is the primary obstacle to fulfilling credit requirements, followed by dissatisfaction with the training offer (i.e. courses offered do not correspond to the demand for skills expressed by teachers) (Maghnouj et al., 2019[32]). Participation in CPD should also be linked to teachers' career progression and compensation.

Policy options for improving the quality of teaching

Improving teaching quality in the Western Balkan economies requires actions on multiple fronts. This includes raising the standard for entry into the teaching profession, strengthening ITE, expanding the availability and quality of in-service training, and improving incentives for better performance and CPD through better performance appraisal, as well as linking salaries and career advancement to performance. As part of the OECD Reviews of Evaluation and Assessment in the Western Balkans, the OECD also provides a set of general recommendations arguing for better forecasting for the teacher workforce, higher standards for entry into the profession and improved teacher salaries, alongside career opportunities that would attract high quality and motivated graduates into the profession (Box 2.2). Specific policy options to improve the quality of teaching, include:

- **Strengthen initial teacher education**
  - *Set demanding standards for entry into ITE to ensure a balance of supply and demand and to raise the standard for entry into ITE.* Where relevant, demanding minimum matura marks (i.e. marks from the secondary school exit exam) requirements should be set for those entering ITE. Teacher standards, which have become a common policy feature in most OECD and EU countries, set out key expectations of teachers in terms of their competencies. These standards should become the foundation and point of reference for ITE and CPD, as well as for teacher appraisal and career development, including promotion.
  - *Strengthen the level and consistency of implementation of teaching standards developed across the region*. While all Western Balkan economies now have a set of system-wide teacher standards, these now need to be fully implemented, especially in ITE programmes. The design and delivery of ITE should ensure that new teachers develop the competencies specified by the professional standards, that ITE programmes are aligned with curricular development, and that ITE include sufficient practical experience to ensure qualified teachers are ready for the classroom. An accreditation regime should be in place to ensure ITE programmes comply with these requirements.
  - *Accredit teaching programmes according to necessary teaching competencies in line with the developed teaching standards*. The qualification levels associated with ITE may be less important than the substantive content of programmes. OECD work on this topic has identified some key desirable features of strong ITE systems (OECD, 2013[42]), including that such systems should align to a clear vision of what is expected of teachers – articulated through teacher professional standards. ITE programmes should set demanding standards for potential teachers, while also offering a clear career route and salaries that attract able candidates. They should also offer sufficient practical teaching experience to prepare novice teachers for the realities of working in the classroom. Ultimately, they should lead to a recognised certification that may be supported by a demanding examination. Finally, education systems should embed ITE in a coherent set of policies related to the teaching profession, including induction programmes for novice teachers, CPD, effective appraisal

arrangements and professional networking opportunities that help teachers to learn from each other. In Ireland, ITE programmes must be accredited; in turn, accreditation requires alignment of ITE with nationally expected teacher competencies and careful attention to a practicum, during which trainee teachers are expected to plan and implement lessons and receive feedback on their performance (The Teaching Council, 2017[43]).

- *Consider the introduction of a economy-wide examination for licensing teachers upon completion of an accredited ITE programme to support more consistent and higher standards in the profession*. System-level data from PISA show that a competitive examination is required to enter the teaching profession for pre-primary, primary and secondary school in France, Japan, Korea, Mexico, Spain and Turkey and in the partner countries and economies of Brazil, Dominican Republic, Malta, Peru, Chinese Taipei, Thailand and the United Arab Emirates. In Luxembourg and Uruguay, a competitive examination is required exclusively for pre-primary and primary school teachers; in Qatar, it is required exclusively for primary and secondary teachers (OECD, 2016[44]). In Germany, there is a multi-step process. Upon completion of ITE, comprising a consecutive three-year bachelor's and two-year master's degree, prospective teachers much pass the First State Examination (first Staatsexamination) and conclude preparatory service (that consists of a teaching practicum and attending teachers' workshops). They must then pass the Second State Examination (second Staatsexamination), which has to be taken before a state examination board or a state examination commission (Maghnouj et al., 2019[32]).
- *Mandate practical training for teachers during their initial education accompanied by devoted mentors*. This may be particularly important in the Western Balkans where some ITE programmes lack sufficient well-structured classroom experience. Supportive feedback, advice and appraisal can be extremely helpful in the development of pedagogical skills of future teachers.

- **Boost availability and quality of in-service teacher training**
  - *Provide induction and other in-service training for new teachers through, for example, peer-learning initiatives and mentorships with more experienced teachers*. Induction programmes, in which new teachers receive supportive feedback, advice and appraisal groups of teachers who teach similar subjects or grade levels can be extremely helpful in the development of pedagogical skills and is a key element of effective teacher preparation. Evidence shows the value of induction programmes. In Ontario (Canada), trained mentors offer guidance to new teachers along with a systematic appraisal process involving in-class observation by the school principal (Ontario Ministry of Education, 2021[45]; Ontario Ministry of Education, 2010[46]).
  - *Support "on-the-job" teacher learning to enhance effective teaching through, for example, an online platform with technical resources and e-learning opportunities*. Providing teachers with resources they can access easily and at no cost facilitates their learning and CPD. In the Czech Republic, the Ministry of Education, Youth, and Sport launched (in 2020) the "Distance Education" website to provide distance education for schools and teachers. This website contains links to online educational tools, updated information and examples of good practices, as well as experiences regarding distance education (World Bank, 2020[47]).
- **Strengthen incentives for better teacher performance and continuous professional development, including through transparent performance evaluation**
  - *Introduce objective and standards-based appraisals of teacher performance at the state level, including self-evaluation processes to help teachers identify their own learning goals*. Regular teacher appraisals are necessary to inform teachers of their performance vis-à-vis relevant benchmarks. But they are effective only if followed up with feedback, including concrete steps to improve areas of underperformance, or with rewards and incentives to recognise good

performance and encourage further growth. Incorporating student feedback into the appraisal process is also important. The Australian Teacher Performance and Development Framework provides a good example of the annual appraisal process for all teachers, based on the Australian Professional Standards for Teacher (AITSL, 2012[48]).

- *Link career advancement and compensation to results from appraisal*. Teachers need to be incentivised to innovate and take initiative in the classrooms and outside of them. If their strong performance is rewarded with higher compensation or faster career progression, they are more likely to invest more in their CPD and to strive to continuously improve their teaching. In Singapore, annual performance appraisal results over a period of three years inform promotion along the teaching track and typically involve the review of a professional portfolio containing evidence of teaching practice. Teachers are appraised against competencies and standards that relate to each stage of the career track. Once promoted, the Ministry of Education and the National Institute of Education offer teachers free courses and trainings relevant to their new positions (Maghnouj et al., 2020[30]).
- *Consider using school evaluation processes to monitor and improve school performance.* This can provide strong incentives to principals and municipalities to improve the quality of schooling within their own constituency.

- **Improve teaching quality by strengthening school leadership.** Principals can support improvement of teaching through a number of leadership roles, including observing instruction, supporting teachers' professional development and collaborating with teachers to improve instruction (Schleicher, 2015[38]). This requires complementing principals' initial training with opportunities for continued professional development. Collaborative professional learning activities, where principals work together to examine practices and acquire new knowledge, can be particularly effective (DuFour, 2004[49]). In Australia, the Netherlands and Singapore, which have high education outcomes, a large share of principals report participation in such activities (OECD, 2014[50]).

Box 2.2. OECD reviews of evaluation and assessment in the Western Balkans

To attract high quality and motivated graduates into the teaching profession, an earlier OECD review of the Western Balkans argued for higher standards for entry into the profession, along with improved teacher salaries and career opportunities. These recommendations remain valid. More recently, the OECD conducted a series of reviews on evaluation and assessment policies in the education systems of Serbia, Albania, North Macedonia and Bosnia and Herzegovina. These reviews, conducted in many OECD and other countries, also provide a rich source of policy analysis and recommendations related to the teaching profession.

These reviews show how the components of evaluation and assessment – student assessment, teacher appraisal, school evaluation, school leader appraisal and system evaluation – can be developed in synergy to improve teaching. This work has identified three hallmarks of a strong evaluation and assessment framework:

- Setting clear standards for what is expected nationally of students, teachers, schools and the system overall. Countries that achieve high levels of quality and equity in education set ambitious goals for all while also being responsive to different needs and contexts.
- Collecting data and information on current learning and education performance. This is important for accountability (i.e. to ensure follow through on objectives) and for improvement, so that students, teachers, schools and policy makers receive the feedback they need to reflect critically on their own progress and to remain engaged and motivated to succeed.

- Achieving coherence across the evaluation and assessment system. School evaluations should value the types of teaching and assessment practices that effectively support student learning. In turn, teachers should be appraised in relation to knowledge and skills that promote education goals.

Source: OECD (2013[42]), *Synergies for Better Learning: An International Perspective on Evaluation and Assessment*, https://dx.doi.org/10.1787/9789264190658-en; OECD (2018[35]), *Competitiveness in South East Europe: A Policy Outlook 2018*, https://dx.doi.org/10.1787/9789264298576-en; Maghnouj et al. (2020[30]), *OECD Reviews of Evaluation and Assessment in Education: Albania*, https://dx.doi.org/10.1787/d267dc93-en; OECD (2019[31]), OECD Reviews of Evaluation and Assessment in Education: North Macedonia, https://doi.org/10.1787/079fe34c-en; Maghnouj et al. (2019[32]), OECD Reviews of Evaluation and Assessment in Education: Serbia, https://dx.doi.org/10.1787/225350d9-en; Guthrie et al. (2022[33]), OECD Reviews of Evaluation and Assessment in Education: Bosnia and Herzegovina, https://dx.doi.org/10.1787/a669e5f3-en.

2.3.2. *Strengthening vocational education and training (VET)*

The VET model in Western Balkan education systems has a solid basis and shares similarities with many countries. Education in the Western Balkans is comprehensive up to the end of lower-secondary education. Thereafter (i.e. at the upper-secondary level), it is tracked into vocational and general programmes (sometimes alongside much smaller tracks such as the arts) (OECD, 2017[51]). This structure is common internationally and found in many European countries (e.g. the Czech Republic, France, Norway, Spain and Sweden) and around the world (e.g. China, Korea and many parts of Latin America). Often, as in the Western Balkans, academic selection determines whether a student enters into the general or vocational track. This structure contrasts with the early tracking arrangements, in which the divide between general and pre-vocational tracks takes place upon entrance to lower-secondary education (e.g. Germany, the Netherlands and Switzerland) or where upper-secondary education is generally comprehensive but sometimes includes vocational modules (e.g. the United States) (for a classification of different types of upper-secondary tracking, see Green et al. (2021[52])).

Following the collapse of communism, the regional economies faced a great need to reform their VET system. Previously, large state-owned companies – as part of their corporate responsibilities – collaborated with vocational schools to deliver a great deal of work-based learning. Following the transition to market economies, this arrangement collapsed; Western Balkan economies have since faced the laborious task of establishing the types of partnerships between private sector employers and vocational schools that underpin effective VET. A patchwork of efforts (some economy-wide and some local) have been pursued over the last decade to address the challenge of increasing the labour market relevance of VET programmes. Albania has implemented a range of projects (e.g. “Skills for Jobs”) to develop apprenticeships in some regions. Montenegro has established a web portal to exchange information between employers and vocational schools. Kosovo has been piloting an information management system to facilitate work-based learning (OECD, 2018[35]).

Despite these efforts, the quality of education of VET programmes remains a challenge. In terms of learning outcomes, PISA data provide a snapshot of performance differences between students at age 15 who attend VET programmes and general education programmes. Similar to international peers, on average across the Western Balkans, students enrolled in general education programmes scored 435 points in reading, whereas those enrolled in vocational programmes scored 382 points. The largest gap was in Serbia (85 score points) and the narrowest was in Albania (25 score points) (OECD, 2020[16]). There are many likely factors that contribute to this trend, such as the fact that in many systems, disadvantaged students tend to be overrepresented in VET secondary programmes and learning gaps are likely start earlier on in their schooling.

Strengthening the partnership with the private sector, especially in development of curricula, and providing opportunities for work-based learning will be key to improving the relevance of VET programmes. The majority of VET programmes in the region are outdated and lack economic relevance.

In Kosovo, for example, an estimated 47% of VET students attend programmes for which there is very limited demand in the labour market (Mehmeti, Boshtraka and Mehmeti, 2019[53]). A tracer study of VET graduates in Bosnia and Herzegovina found that only 51% of graduates are employed in the field in which they studied (German Cooperation, 2018[54]).

Improving the quality and relevance of VET would require better financing of the VET system. Limited financing for VET – and the relatively high share of staff expenditures – leaves limited funds for equipment, technology and other relevant teaching materials. This results in mainly theoretical VET with limited practical learning. This challenge is exacerbated by the limited opportunities for work-based learning.

Attention also needs to be given to the workforce of vocational teachers. In particular, it is vital to ensure they are fully aware of recent developments in professional practice in their respective fields. With the exception of Serbia, share of teachers undertaking in-service training and participating in professional development in vocational specialisation is relatively low in the region. All regional economies are characterised by a relatively low share of teachers that undertook their CPD within businesses (Table 2.5), indicating their limited practical exposure. In Serbia and Montenegro, more than 20% of teachers of vocational subjects have no experience at all of working in the occupation for which they are training their students (ETF, 2018[41]).

Table 2.5. Vocational teachers participating in various forms of CPD (%)

% of teachers, 2014/15

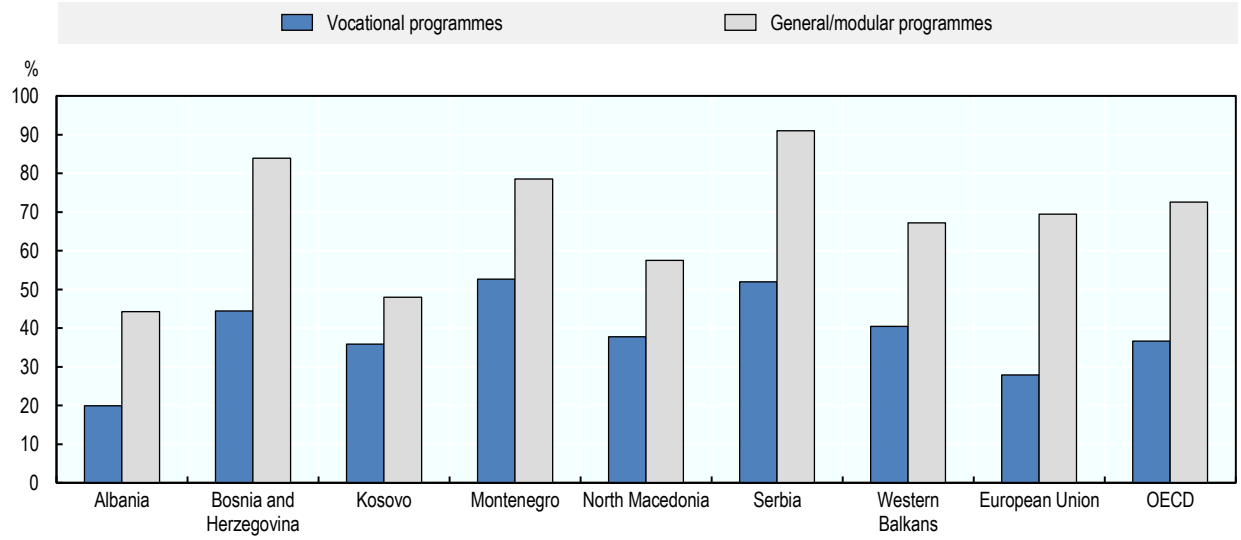
	In-service training	Professional development in vocational specialisation	Conferences/seminars	Observation visits to schools	CPD at businesses	No CPD
Albania	56	23	17	31	29	35
Bosnia and Herzegovina	54	32	13	15	32	40
Kosovo	56	36	27	18	16	35
North Macedonia	65	34	35	24	24	27
Montenegro	76	40	37	19	27	21
Serbia	92	54	35	38	31	4
Turkey	47	37	47	30	49	19

Source: ETF (2017[55]), Torino Process 2016-2017: South Eastern Europe and Turkey, http://dx.doi.org/10.2816/341582.

Managing pathways for tertiary education from the VET track is an important challenge in the region. A generation ago, upper-secondary VET systems in nearly all Western Balkan economies were designed to prepare individuals for one job for life. This has now changed: as the economies have modernised and come to require higher-level skills, the aspirations of young people for tertiary education has risen markedly (Field and Guez, 2018[56]). This has created profound challenges for upper-secondary VET tracks, in the Western Balkans as elsewhere: unless such tracks offer a clear route to tertiary education, they may be perceived as a dead-end. In 2018, 40% of Western Balkan students (on average) in upper-secondary VET tracks expected to complete a university degree, a slightly higher share than EU and OECD averages (Figure 2.9).

Figure 2.9. A large share of upper-secondary students are expecting to complete a university degree in the Western Balkans

% of upper-secondary students, 2018



Note: A university degree includes a bachelor's, master's or doctoral degree (ISCED 5A and 6).
All differences are statistically significant.
Source: OECD (2021[18]), PISA 2018 Database, www.oecd.org/pisa/data/.

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Policy options for improving the quality and relevance of VET

Strengthening the quality of VET would require: upgrading and modernising the curricula and teaching methods to better align studies with labour market needs; improving teaching quality and, in particular, strengthening the practical education of teachers; expanding work-based learning opportunities; boosting resources for better equipment and teaching materials; and strengthening career guidance and counselling.

- **Develop more practice-oriented VET programmes by including employers in the design and implementation process.** A recent review of VET in Albania provided some informative and detailed recommendations on how to systematise VET in response to labour market needs. Many of the recommendations would be applicable throughout the Western Balkans (Hilpert, 2020[57]).
- **Review and consolidate VET profiles in line with labour market developments and needs**. The Business Higher Education Forum (BHEF) in the United States brings together senior administrators from higher education institutions and CEOs of Fortune 500 companies to identify skill needs and find ways to develop those skills within higher education. One strength of this collaboration is that it is a long-term partnership, allowing for deep research that informs longer-term curriculum development. The BHEF is currently working with higher education institutions and business partners to develop new curricula for projected in-demand fields of study such as cybersecurity and data analytics (OECD, 2017[58]).
- **Enhance funding to improve access to equipment and teaching materials to improve the quality of teaching**.
- **Strengthen co-ordination mechanisms with the private sector to boost work-based learning through apprenticeships**. Work-based learning has been identified as a key element

of strong VET systems, as it offers both a powerful learning environment and a means of linking trainees and training to employers, aligning training provision to employer needs and facilitating subsequent recruitment (OECD, 2018[59]). Apprenticeship, in which more than half – and typically around 80% – of the VET programme takes place in the workplace, with the employer, is a strong model of work-based learning (OECD, 2014[60]). "Dual" vocational education normally refers to this model. Even when a vocational programme is predominantly school-based, there are compelling grounds for including a substantial element of work-based learning. In France, students in the three-year, upper-secondary vocational programme (*baccalauréat professionnel*) must pursue 22 weeks of work-based learning. Students can participate in up to six work placements, each being a minimum of three weeks. The relevant qualification standards define which competencies are to be acquired during these placements. Teaching staff together with employers define the practical aspects of the training period and determine the tasks the learner is required to carry out. Qualified mentors ensure learners are appropriately supported. Teaching staff evaluate the performance of students during the placements, which contributes to the overall mark in the *baccalauréat professionnel* (European Commission, 2013[61]).

- **Develop quality assurance for work-based learning that is not too burdensome for employers.** Work placements are only valuable if they are good quality in terms of the work experience, training and mentoring offered by the employer. Quality assurance of work placements is therefore an important part of ensuring meaningful learning opportunities for students. However, employers will be reluctant to offer placements if the quality assurance requirements are burdensome for them. Thus, quality assurance needs to be designed to assist employers in offering work placements, rather than being an obstacle to them. The Swiss "Qualicarte", developed for apprentices but with potential for wider application, provides a good model. Developed by employer bodies together with government training agencies, Qualicarte offers employers both a checklist of how to manage a trainee and a form for self-assessment. It thus guides employers through the tasks they need to perform in work-based learning and supports quality. For each of the evaluation criteria of the Qualicarte, training employers are invited to self-assess the extent to which they comply with expectations (CSFP, 2021[62]).
- **Foster flexibility within VET through modular courses or pathways that create bridges between upper secondary vocational and tertiary education, thereby better responding to the diverse needs of students**. OECD countries grappling with this challenge have adopted different strategies, few of which are perfect. In Austria and Switzerland, a separate academic examination is required, over and above an apprenticeship qualification, to enter university (Apprenticeship Toolbox, 2021[63]). However, both countries have relatively high-status apprenticeship systems, which are potentially attractive to students even without a direct link to tertiary education. More relevant to the Western Balkans may be the common lesson from the different experiences of Sweden and Denmark, where the link between vocational programmes and access to tertiary education is critical to the attractiveness of vocational programmes, particularly for high-performing students. In Sweden up to 2011, students in upper-secondary vocational programmes automatically pursued the general education programmes that provide access to higher education. A 2011 reform meant that some more demanding general education programmes, including mathematics, became optional for those in vocational programmes. Subsequently, the proportion of students following vocational programmes dropped, from 53% in 2005-10 to 33% in 2016/17, with a particularly sharp fall in strong performers. Survey evidence suggests that many Swedes now see vocational programmes as an option for low performers, offering weak preparation for higher education. As a remedy, an OECD review proposed that, *by default,* vocational programmes should include the courses required for higher education, while allowing an opt-out. Denmark's point of departure was different in that it has historically had a form of dual apprenticeship in upper-secondary education. However, having found it difficult to sustain the interest of young people in the apprenticeship track, Denmark recently created a

hybrid qualification (EUX) that provides both an apprenticeship and access to higher education. These programmes are academically demanding and attract only a few percent of those in the vocational track. But they have been successful in attracting some high performers who might not have otherwise considered apprenticeship (Kuczera and Jeon, 2019[64]).

- **Boost resources for career guidance for VET students to improve employability and reduce drop-outs.** Career guidance should be redesigned from assistance with individual career decisions to a lifelong learning approach that also encompasses the development of career management skills.

2.3.3. *Increasing the use of digital technologies in education*

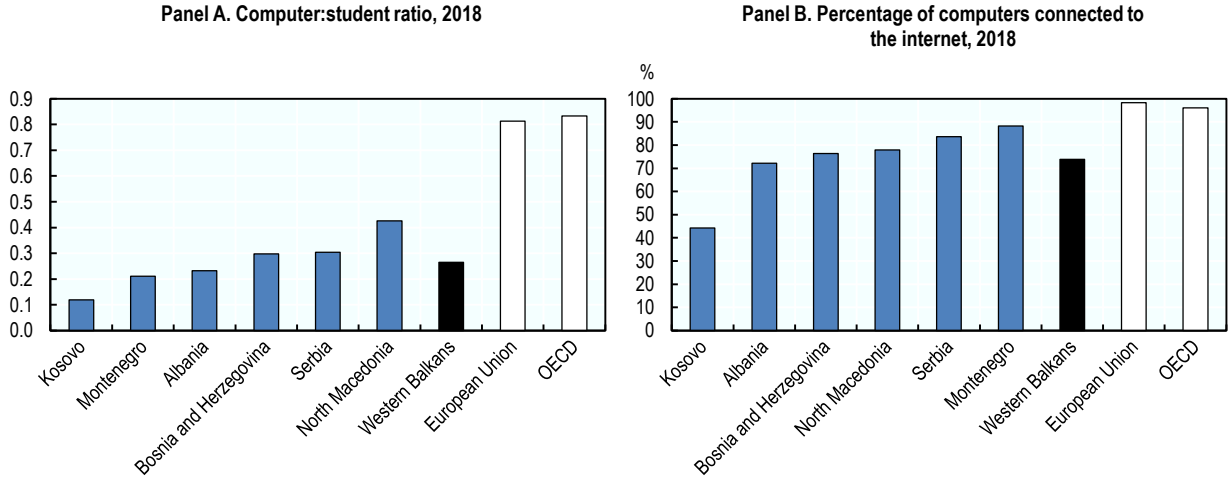
Globally, digital tools have become an increasingly important part of schooling. Such tools include not only physical devices (e.g. computers and smartphones with internet access), but also involve use of technologies such as cloud storage, learning analytics and collaborative learning networks that allow for access by students, teachers and parents (van der Vlies, 2020[65]). Digital technology does not automatically improve outcomes and, in isolation, investment in computers for education appears to yield few benefits; however, when complemented by skilled teachers, digital tools can yield good results (OECD, 2015[66]).

Access to digital resources varies hugely across schools in the Western Balkans. According to data from PISA, schools in the region attended by 15-year-olds have just over 0.25 computers per pupil, compared with an average of over 0.8 in OECD countries (OECD, 2020[16]). Even in North Macedonia, the best-provided economy in the region, this ratio was less than 0.5 (Figure 2.10 – Panel A). Internet access is also an issue: just over 70% of computers in schools in the Western Balkans are connected to the internet compared with nearly all school computers in OECD countries. In Kosovo, less than half of computers are connected to the internet (Figure 2.10 – Panel B).

The perceptions of principals confirm the weaknesses in technological infrastructure in Western Balkan schools. In a survey of principals carried out in 2018, respondents indicated that only a little more than one-third of pupils in Western Balkans schools had effective online support available and that the number of digital devices was sufficient; in both cases, comparable OECD and EU averages were more than half of pupils. Kosovo reports particular challenges, as principals reported that only 15% of pupils were in schools with sufficient digital devices (Table 2.6). These data tend to confirm that technological infrastructure is weak in the region and that school leaders perceive as a problem.

Figure 2.10. There is a need to increase the use of digital technology in schools

Computer:student ratio, 2018 (Panel A), and percentage of computers connected to the internet, 2018 (Panel B)



Source: OECD (2020[16]), Education in the Western Balkans: Findings from PISA, https://dx.doi.org/10.1787/764847ff-en.

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In response to the COVID-19 crisis and widespread school closures, Western Balkan economies moved rapidly to introduce distance learning through multiple routes. In some parts of the region, students received information and communications technology (ICT) equipment and classes were delivered on line, backed by web resources. TV and radio broadcast material was also used extensively to provide distance learning, although often in an abridged form. Teachers participated in online networking platforms to share experiences and support each other. Finally, the school calendar in many Western Balkan education systems was adjusted to protect public health (World Bank, 2020[67]).

These developments revealed gaps in access to digital technology at home, not least as students in the Western Balkans often lack the connectivity enjoyed by their EU counterparts. Some 22% of students in the Western Balkans report little or no home internet access, double the level of EU countries (World Bank, 2020[67]). Moreover, the PISA Index of economic, social and cultural status (ESCS) shows that students in the region have almost universal access to the internet while those in the bottom quintile have much less (Figure 2.11). For children trying to work from home, parents can, in principle provide vital support, both in respect of the learning substance, and in handling the digital tools necessary to support home learning. However, this is likely to pose a challenges considering that the share of individuals with basic or above basic digital skills is relatively low in the region (Figure 2.3 – Panel A. Beyond the issue of digital tools, many students will have found the whole experience of disrupted schooling, alongside the wider impacts of the pandemic, profoundly disturbing; likely, they will need ongoing emotional support from their parents and their schools once schools reopen.

Table 2.6. How principals see digital resources in their schools

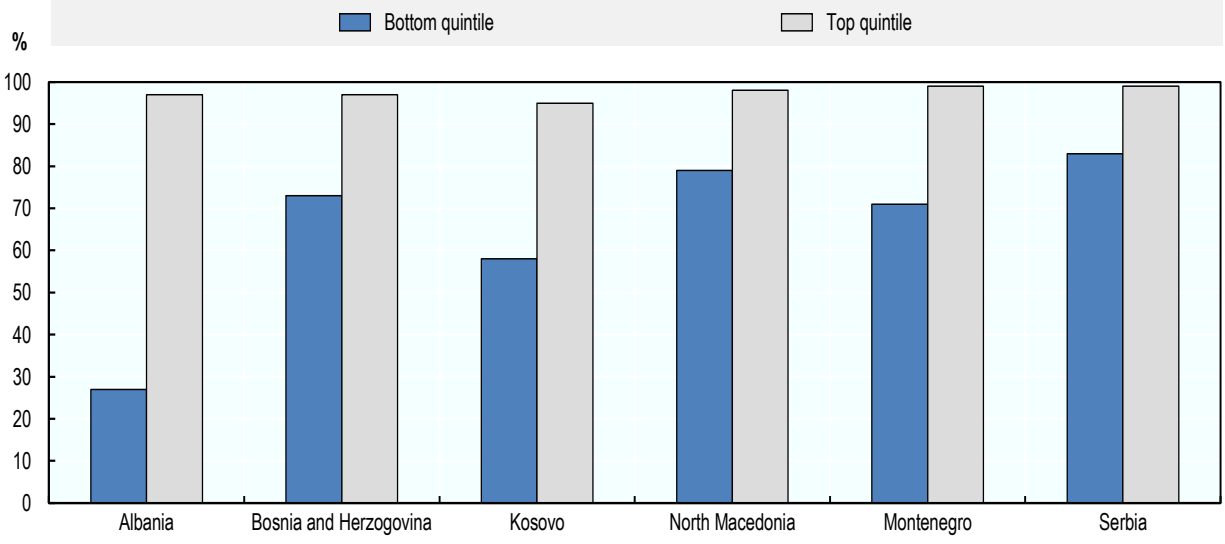
% of students in schools at which the principal "agreed" or "strongly agreed" with these statements, 2018

	An effective online learning support platform is available	The number of digital devices for instruction is sufficient	The availability of adequate software is sufficient	Teachers have the necessary technical and pedagogical skills to integrate digital devices in instruction
Albania	32	38	47	89
Bosnia and Herzegovina	34	38	35	67
Kosovo	22	15	17	72
Montenegro	49	40	57	76
North Macedonia	24	38	44	79
Serbia	40	43	49	71
Western Balkans average	34	35	41	76
EU average	52	59	72	65
OECD average	54	59	71	65

Source: OECD (2021[18]), PISA Database, www.oecd.org/pisa/data/.

Figure 2.11. In most of the Western Balkan economies, students' background influences their access to digital technology

% of students reporting access to a home computer for schoolwork: lowest and highest socio-economic (ESCS) quintiles, 2018



Source: World Bank (2020[67]), The Economic and Social Impact of COVID-19: Education, http://documents1.worldbank.org/curated/en/590751590682058272/pdf/The-Economic-and-Social-Impact-of-COVID-19-Education.pdf

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Weak digital skills among teachers may be one of the biggest challenges to effective online education in the Western Balkans. Weak digital skills among teachers seems to be a general challenge not only in the Western Balkans, but also in the European Union, where only one-quarter or less of students are taught by teachers who feel confident using digital technology (World Bank, 2020[67]). In

Albania, North Macedonia and Serbia about 77%, 72.2% and 56% of teachers, respectively, report having a need for professional development in ICT-related fields (ETF, 2018[68]; ETF, 2018[69]; ETF, 2017[70]). Several Western Balkan economies now recognise the need for such skills among teachers. Serbia has a specific element of digital competency in the ITE curriculum; Montenegro and North Macedonia include digital skills among the professional standards of teacher competencies (World Bank, 2020[67]).

Policy options for increasing the use of digital technologies in the classroom

Limited teacher capacity and inadequate digital technology represent significant weaknesses in the Western Balkans. School closures during the pandemic and the use of online education platforms during closures has only highlighted this challenge. Looking ahead, as digital technologies continue to evolve, the region will need to upgrade both the digital infrastructure and the digital skills of teachers.

- **Boost teacher capacities to use digital tools**. To make full use of digital technology in education, the most important investment – in both the short and long term – for all economies may lie in teacher capacity. This requires building the use of digital education tools as a key element in ITE, and, critically in CPD, to ensure teachers feel supported and have the capacity to use such tools in their practice. Education systems can then develop digital infrastructure in line with the increasing capacity of the teaching workforce to use digital tools. To ensure adequate take up of trainings on digital skills among teachers, there also seems to be a need to further raise the awareness among school principals. Among the school principals in the region, there is namely a strong perception that the necessary technical and pedagogical skills to integrate digital devices in instruction are available (Table 2.6). Latvia has brought the digital competency of teachers to the forefront of efforts for implementing curricular reform. Teachers can engage for free in professional development courses to enhance their digital skills in the e-environment for the use of educational technologies. The courses target a large variety of teachers and school leaders, from preschool to VET teachers and teachers of various subjects (e.g. languages, mathematics and biology). Teachers can engage with the content flexibly, at their own pace (Minea-Pic, 2020[71])
- **Increase student access to digital technologies in the classroom.**

2.3.4. *Updating and modernising curricula to impart relevant knowledge and skills*

Curricula are powerful levers for strengthening student performance and well-being, and for preparing students for future jobs. Development of competence-based curricula is critical to ensure consistency and equity in the delivery of education and to target learning outcomes, skills and competencies that need to be achieved at each stage of the education process. Curricula can also guide and support teachers, facilitate communication between teachers and parents, and ensure continuity across different levels of education. However, curricula can also limit the creativity and agency of students and teachers if there is not sufficient space to explore their own interests and goals. To support innovation and progress, likewise, curricula need to be regularly updated and upgraded to keep pace with changing economies and societies (OECD, 2020[36]).

Competency-based curricula have been developed in the Western Balkans, but implementation is lagging. In most economies, the common challenge is that teachers and schools lack the competencies and/or support to implement competence-based curricula and adapt them to their needs. In Serbia, the new curriculum is overloaded and very prescriptive – compared with practices in OECD countries – which severely limits teachers' room to adapt their practices to the specific learning needs of students (Maghnouj et al., 2019[32]). In addition, it lacks guidelines that describe students' learning progression in a cycle. External school evaluation results show that, in almost half of basic education schools and two-thirds of upper-secondary schools, the use of assessment to inform learning and adapt teaching to student needs is weak (Petrović, Nedeljković and Nikolić, 2017[72]). In Bosnia and Herzegovina, the capacity challenge

is further complicated by political sensitivities and disagreements, as well as the lack of political will to follow state-wide mandates, all of which hamper implementation of the competence-based curricula (World Bank, 2019[73]). In Kosovo, inadequate preparation and training of teachers impedes curricula implementation, as do delays in preparing accompanying materials, lack of updated textbooks and other issues (Aliu, 2019[74]).

Policy options for strengthening curricula in the Western Balkans

When it comes to the policy lever of curricula, the Western Balkan economies face multi-faceted challenges. First, they need to ensure implementation of the competence-based curricula is finalised and is consistent across all jurisdictions. Second, they need to ensure resources and mechanisms are in place to systematically update and upgrade curricula in line with changing labour market needs or socio-economic developments. This includes developing stronger co-ordination mechanisms across relevant institutions and stakeholders as well as ensuring that annual analyses of labour market needs are translated into proposals for education policy action. Specific policy actions include:

- **Advance adaptation of competence-based curricula across schools**. To aid implementation, adequate support materials and teacher training need to be developed.
- **Strengthen co-ordination mechanisms with the private sector and other stakeholders to improve the labour-market relevance of curricula.** Systematic review and updating of curricula are critical for keeping abreast with labour market or socio-economic changes. In Poland, higher education institutions partner with employers to design curricula and teaching processes. Vocational higher education institutions need to demonstrate substantial participation of employers and industry representatives in the educational process, for example by ensuring their representatives are present on the collegial advisory bodies of these institutions (OECD, 2017[58]).
- **Translate annual analyses of labour market needs into concrete proposals for enrolment policy and curricula improvements.** A critical added value of such analyses is that they can guide changes and upgrades of curricula and relevant education policies.
- **Align assessment practices with the standards of the new curricula.** This will influence the uptake of competence-based education and allow teachers and external assessments/exams to measure students against the new curricula's norms.

2.3.5. *Fostering equitable education at all levels*

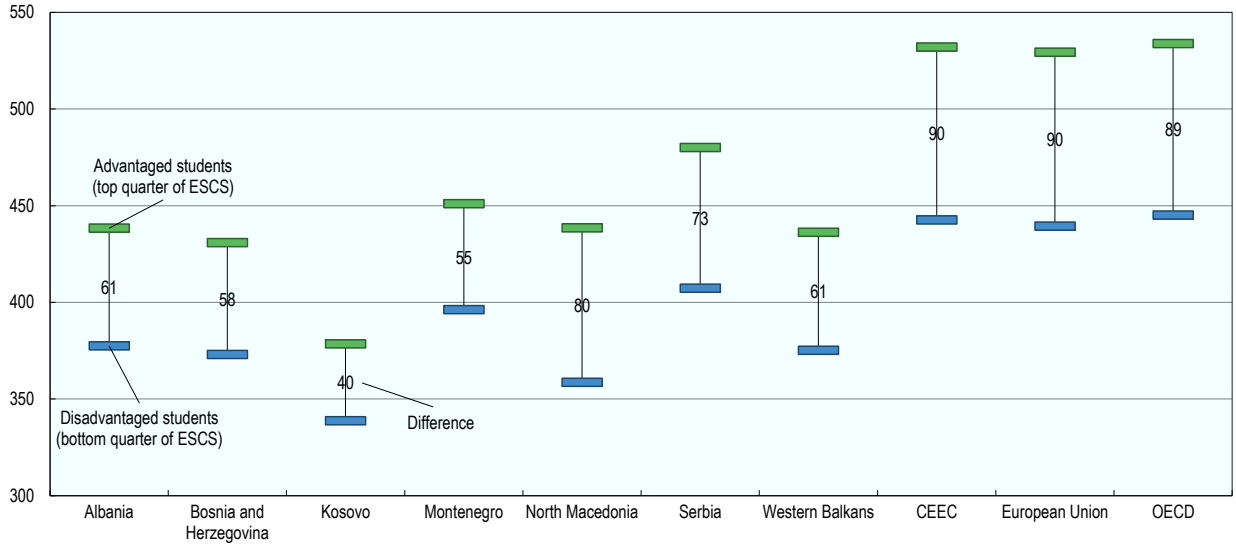
The need to improve educational equity – across all areas described above and across all Western Balkan economies – is a common, resounding theme. A strong education system has the capacity to overcome the disadvantages of circumstance and background, allowing everyone to realise their potential. A weak education system has little capacity to counterbalance the circumstances of individual students and may likely echo and reinforce the inequities found in society. A strong education system depends critically on the capacity of the teaching workforce, including how they are prepared for their work to foster professional standards such that supporting the low-performing and disadvantaged students is a priority. In tracked upper-secondary systems such as in the Western Balkans, a strong system also depends on having a vocational track that delivers quality education and training, is linked to labour market needs, and leads to good jobs. Such fundamentals ensure that those pursuing VET programmes have access to real opportunities, rather than being consigned to a marginalised position in the labour market. Making digital resources available, both at school and at home, to those who need them most is also vital. As schools reopen as the COVID-19 pandemic wanes, it will be critical to target efforts to provide socio-emotional support and learning recovery towards those who have fallen furthest behind. Ensuring adequate levels of resourcing for the education system underpins all of these elements.

Education access and attainment in the Western Balkans need to be improved for the Roma and other minorities, the poor, rural children and children with special needs. Most notably, enrolment and attainment rates of Roma children are systematically and considerably lower than non-Roma children, and the gaps widen over time (Figure 8.7 of Chapter 8 – Panel A). For Roma girls, the gaps are the widest starting from secondary education and onward. Similarly, enrolment gaps exist for children from poor and rural backgrounds, who are strongly impacted by the limited availability of ECEC in all economies. In later years, they are less likely to attend secondary school and more likely to drop out of school. At present, provision of infrastructure and services to support special needs education varies depending on the resources and capacities of municipalities and schools.

Data from the OECD PISA survey reveal that, in most Western Balkan economies, students from socio-economically disadvantaged backgrounds tend to perform worse than those from advantaged backgrounds. It is encouraging that performance gaps associated with the socio-economic background of students appear to be less, on average, in the Western Balkans than in OECD countries. In fact, performance disparities in the Western Balkans between the most and least advantaged quartiles is only about two-thirds of that observed in EU and OECD countries (Figure 2.12). Despite being comparatively modest in such benchmarking, the impact of socio-economic background on school performance in the Western Balkans remains important.

Figure 2.12. Reading performance is influenced by students' background, although less than in the EU and OECD

Scores in reading performance of the top and bottom quartiles of the ESCS



Source: OECD (2020[16]), PISA 2018 Database, https://dx.doi.org/10.1787/764847ff-en.

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On other dimensions of equity, Western Balkan education systems face greater challenges. Broadly, across the region, boys perform worse than girls at rates exceeding international averages. In regional economies with linguistic minorities, learning gaps in reading across linguistic groups can be greater than 70 points (OECD, 2021[18]). Diverse signs suggest that school resourcing can be inequitable in the region: schools with more socio-economically advantaged student intakes tend to be better resourced than schools with more disadvantaged student intakes (OECD, 2020[16]).

Policy options for strengthening the equity and inclusiveness of education

Fostering more equitable education in the Western Balkans will require interventions on several fronts. More initiatives need to be undertaken and/or scaled up to target inclusion of Roma, as well as any other minorities or underrepresented groups, in education systems. More research is needed on special needs education to ensure children with such needs have opportunities to get an appropriate education, regardless of the municipality they live in or school they attend. In turn, this also relates to challenges of financing education and the need to structure financing such that it assigns higher weight to disadvantaged students. Finally, including parents in all of these efforts will be critical to ensure children from disadvantaged backgrounds and those who have special education needs can get the best care and support both at school and at home.

- **Develop, finance and/or scale up initiatives that target Roma inclusion at all levels of education.** Such efforts can include the design of alternative teaching materials for Roma children, teacher training on inclusive teaching, monitoring progress and provision of additional support as needed, providing scholarships for Roma children to incentivise their enrolment in upper-secondary and higher education, etc. Croatia offers free preschool for Roma children. In Greece, efforts to include Roma inclusion cover four key areas: 1) developing specific language materials for teaching Greek as a second language; 2) creating alternative teaching material for orientation and learning enhancement classes; 3) designing training materials for teaching staff; and 4) implementing pedagogical monitoring and support, as well as raising awareness and boosting training (Rutigliano, 2020[75]).
- **Boost capacities and resources for equitable implementation of special needs education across all municipalities**. Special needs students should be provided the opportunity to succeed, no matter where they live. As such, adequate resources should be allocated to provide appropriate infrastructure and services. This is no easy challenge, as even OECD countries continuously strive to improve special needs education. France allows for curriculum adaptations depending on each student's special education needs. In 2019-20, France also introduced a new plan, *"Pour une école inclusive"* ("For an inclusive school"), to address the special education needs of students and assist their families quickly and effectively establishing district- and school-level support services (Brussino, 2020[76]).
- **Make funding strategies responsive to school and student needs, including by balancing decentralisation and/or local autonomy with resource accountability to ensure support to the most disadvantaged students and schools**. In 1998, the Netherlands introduced a weighted student funding formula for all primary schools to ensure those with substantial numbers of disadvantaged students receive more funds. The "weight" of each student is determined by the education level of the parents. The mechanism has succeeded in distributing differentiated resources to schools according to their different needs (e.g. primary schools with a high proportion of disadvantaged children had, on average, about 58% more teachers per student); however, weighted student funding has not assured equal quality of education across all schools. Subsequent evaluation emphasised that such a measure needs to be accompanied by investments in quality of teaching (Ladd and Fiske, 2009[77]; Ladd and Fiske, 2009[78]; Ladd, Ruijs and Fiske, 2009[79]).
- **Strengthen communication channels with parents of disadvantaged students, including students from lower socio-economic backgrounds and minorities, to better align school and parental efforts.** This can be implemented by introducing mentorship programmes in disadvantaged communities. In France, for example, having been piloted in one school district (Académie de Creteil), the "parents' toolbox" ("la mallette des parents") was introduced in 1 300 lower-secondary schools in September 2011. This toolbox contains a DVD with information on their child's schooling. Parents are also invited to participate in school meetings to discuss many different aspects of the children's education, including help with homework. The goal of this

initiative is to strengthen the linkages between schools and parents and to ensure more continuity in the child's learning. Evaluations of the early stages of the programme noted very positive outcomes for students, especially in terms of lower absenteeism (OECD, 2012[37]).

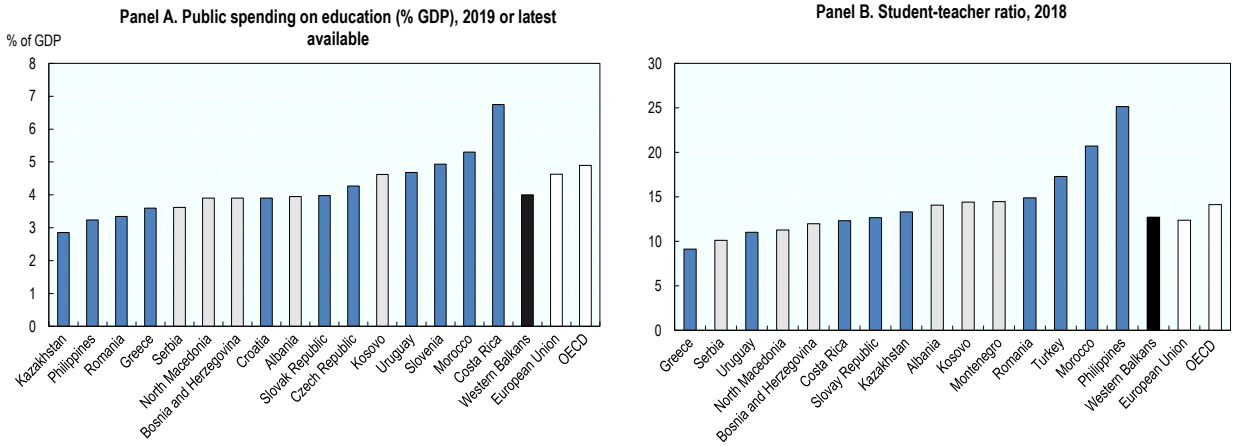
2.3.6. *Increasing and improving the effectiveness of spending on education*

Education budgets need to be better allocated to improve learning outcomes. In the Western Balkans, education spending is relatively modest; as a share of GDP, these economies spend less on education than advanced EU and OECD economies (Figure 2.13 – Panel A). Based on data available, spending on secondary education is comparatively very high in Bosnia and Herzegovina, but low in Albania and Serbia (Figure 2.14 – Panel B). Low spending in Albania and Serbia strongly impacts VET, especially in Serbia which tends to attract a high share of students (Section 2.3.2). This accounts for the highly theoretical nature of VET education in these economies compared with more advanced economies. Spending on primary education in the Western Balkans tends to be high against the OECD average (Figure 2.14 – Panel B), especially in Albania and Serbia; this reflects (among other factors) the high number of teachers relative to the student population (Figure 2.13 – Panel B). Capital spending for education in the region is relatively low compared with the OECD average.

Despite nascent efforts to introduce a per-capita financing formula in some economies, financing of schools remains based on inputs such as the number of classes and teachers, as well as other factors. Inefficiencies in spending on education persist, as reflected in, for example, the growing number of teachers despite a declining student population. The high teacher-to-student ratio also reflects other structural challenges, such as the large number of subjects and electives starting from upper primary school (13 subjects starting from 5th grade and more thereafter) as well as the large number of small schools that require more teaching staff.

Figure 2.13. Education spending is relatively low and most of the funding is going to teachers' salaries

Public spending on education (% GDP), 2019 or latest available (Panel A), and student-teacher ratio, 2018 (Panel B)



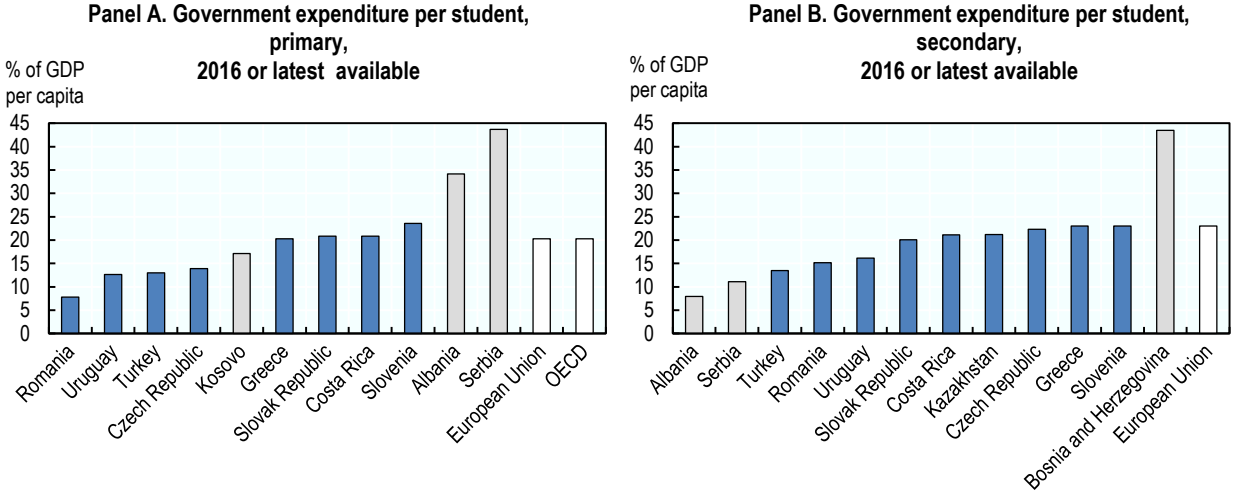
Note: The ratios are an average of the ratios of three different levels of education: primary, lower secondary and upper secondary. Panel A – data for Morocco is for 2009, data for North Macedonia is for 2013, date for Albania, Bosnia and Herzegovina and Croatia are for 2017, data for Romania, Greece, Slovak Republic, Czech Republic, Slovenia, EU and OECD averages are for 2018, data for Kazakhstan, Philippines, Serbia and Uruguay are for 2019. Panel B – Data for Serbia is for 2015.

Sources: World Bank (2021[23]), World Development Indicators, https://databank.worldbank.org/reports.aspx?source=world-development-indicators; Agency for Statistics of Bosnia and Herzegovina (2021[80]), Agency for Statistics of Bosnia and Herzegovina website, www.bhas.ba/?lang=en; Kosovo Agency of Statistics (2021[26]), *Askdata* (database), https://askdata.rks-gov.net/PXWeb/pxweb/en/askdata/?rxid=4ccfde40-c9b5-47f9-9ad1-2f5370488312; MAKStat (2021[81]), *MAKStat* (database), http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat__NadvoresnaTrgovija__KumulativniPod/?rxid=e70e8868-e6a5-4557-87cc-fc8b565e5da3.

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Figure 2.14. Enhancing and improving the allocation of education budgets for better education outcomes

Government expenditure per student, primary, 2016 or latest available (Panel A), and government expenditure per student, secondary, 2016 or latest available (Panel B)



Note: Panel A - Data for Serbia are for 2015, data for Kosovo are for 2014, data for Romania, Turkey, Czech Republic, Greece, Slovak Republic, Slovania, EU and OECD averages are for 2016, data for Albania and Uruguay are for 2017. Panel B - Data for Serbia are for 2015, data for Turkey, Romania, Slovak Republic, Kazakhstan, Czech Republic, Greece, Slovenia, Bosnia and Herzegovina, EU and OECD averages are for 2016, data for Albania and Uruguay are for 2017.

Source: World Bank (2021[23]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; UNICEF (2015), (2015[82]), Public Expenditure on Primary Education in Kosovo, www.unicef.org/kosovoprogramme/media/176/file/Kosovo_UNSCR_1244_Primary_Education_PER_Summary.pdf.

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Policy option for improving the financing of education

A more efficient allocation of funding is needed to produce better and more equitable education outcomes. Allocation of financing across educational institutions in the Western Balkans is currently based on inputs such as teaching hours, teaching staff and class sizes, rather than the number of students. This has resulted in an inefficient allocation of financing, as reflected in (among other things) growing staffing numbers and costs despite a shrinking student body due to negative population growth and emigration (World Bank, 2019[73]). To strengthen the efficiency and equity of financing, one option is to introduce a per-capita funding formula, especially in primary education, in order to better align expenditures with student needs.

2.3.7. *Strengthening governance and co-ordination of education policy*

Governance of education is undermined by weak co-ordination between central and local governments in many regional economies, which leads to considerable inefficiencies and inequities in the delivery of education. This is a particular challenge for Bosnia and Herzegovina, where education is governed by 17 different institutions, including 12 ministries (the Ministry of Education and Culture in Republika Srpska, the Department of Education in Brčko District, and the ten cantonal ministries in the Federation of Bosnia and Herzegovina), three implementation agencies and one co-ordination body (ETF, 2020[83]).

Better and more harmonised data collection is needed to strengthen governance of the education system. Weak education outcomes also reflect a lack of systematic monitoring and evaluation of education policies, which is, in turn, undermined by the lack of systematic collection and sharing of education-related data at the state level. At present, education-related statistics are incomplete and inconsistent, which limits the evidence base for policy making. Limited comparable data on learning outcomes, and the absence of a state-wide student assessment system to measure these outcomes, hinder regular performance monitoring in some economies. Institutional capacities for conducting regular monitoring and rigorous evaluation also need to be improved.

Ensure better education policy development and implementation by involving all relevant stakeholders. Forming strong partnerships, particularly with the private sector, has been an important strategic priority for many economies in the region, as evidenced by key strategic documents across a range of policy areas including education. In practice, however, systematic and effective engagement with the private sector and other relevant stakeholders (academia, civil society and other actors) is yet to be achieved. According to the peer-learning workshop participants, in Bosnia and Herzegovina, this is considered to be the most important challenge for education policy.

Policy options for strengthening education governance

Improving the governance of education policy is a challenge facing many Western Balkan economies. In Bosnia and Herzegovina, the task is further complicated by the complex political and institutional structures and by long-standing issues of division, mistrust and lack of co-operation within the political system. Moving forward, it will be critical to unify all education authorities behind a set of common objectives to improve the efficiency of schools, strengthen mechanisms for co-ordinating the implementation of these objectives, establish frameworks to monitor progress vis-à-vis these targets in a consistent way across all jurisdictions, and determine ways to evaluate the impact of education policies and adjust them accordingly.

- **Systematically engage with all relevant stakeholders in the policy-making process.** Policies developed in a participatory manner – i.e. with input from stakeholders from the private sector, academia, civil society and other actors – are more likely to better designed and implemented. Effective stakeholder engagement is also critical for ensuring the broad strategic vision and goals for the education system align with those of relevant stakeholders. While it is critical that governments provide the fora and means for stakeholder consultation, it is also important that stakeholders be proactive in this process. In Estonia, the Estonian Education Forum (EEF) provides a platform for stakeholder engagement and co-ordination. The Forum's mission is to "support democratic processes of participation, partnership and social agreement in Estonian education strategy and policy." It holds a government-financed annual meeting for its membership of 40+ interest groups and organisations in the field of education to discuss relevant issues, trends and topics. The Forum is also responsible for maintaining a database of good practices. Since its formation, the Forum has been credited with significantly influencing the development of ideas in educational policy and establishing civil society principles and methods in Estonia (Loogma, 2021[84]).
- **Develop a common indicator framework for tracking progress across all jurisdictions, and improve data collection and sharing to boost the evidence base for education policy making.** Collection and aggregation of clear, comparable and relevant data on schools' academic and financial performance are essential – particularly for decentralised education systems – to ensure that financing is deployed efficiently, and education outcomes are optimised (West et al., 2010[85]). To ensure consistency for economy-level reporting and analysis across individual states, the United States Department of Education has created Common Education Data Standards, which determine what education data should be collected across the country. By implementing common data standards, education policy makers can be confident that data from

different states have the same meaning and can be relied upon to inform federal decision making (Maghnouj et al., 2019[32]).

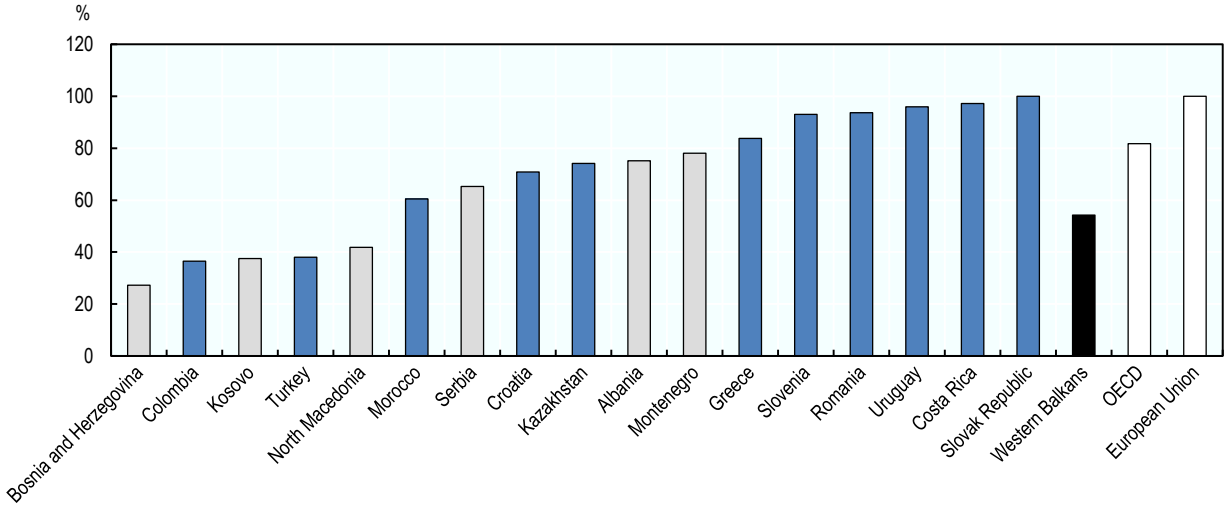
- **Regularly monitor and evaluate to improve policy design and implementation.** All strategic documents and action plans should be accompanied by key performance indicators (KPIs) and targets against which implementation progress can be monitored. Monitoring should be conducted regularly to track progress against the key targets and to take remedial action if progress is lagging or stalled. Evaluations and reporting on system performance should be conducted periodically to rigorously assess the effectiveness of relevant policy measures and to take follow-up action accordingly.

2.3.8. *Increasing access to and quality of early childhood education and care*

Early childhood education has significant economic and social benefits. A growing body of research links ECEC to children's development, learning and well-being and to improvement of their cognitive abilities and socio-emotional development. Children who start their education early are more likely to have better outcomes when they are older; this is particularly important for children who come from disadvantaged socio-economic backgrounds who have more limited opportunities for learning in their home environment. Providing high-quality childcare for young children also enables higher labour force participation of women and better work-life balance for parents, and can also lead to higher fertility rates (OECD, 2017[86]).

Figure 2.15. Enrolment in early childhood education and care is low

% of children (aged 3-5) attending a preschool programme, 2020



Note: Data for Turkey, Croatia, Greece, Romania, Slovenia, Uruguay, Slovak Republic, Philippines and Czech Republic are for 2019; data for North Macedonia and Kosovo are for 2018; data for Colombia are for 2014.

Source: World Bank (2021[23]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators; OECD (2021[29]), Competitiveness in South East Europe 2021: A Policy Outlook, https://dx.doi.org/10.1787/dcbc2ea9-en.

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Boosting access to ECEC is a critical challenge in the Western Balkan economies. With just 54.3% of children from age 3 to the age of enrolment participating in compulsory schooling, enrolment in ECEC in the region is low compared with EU countries (Figure 2.15). ECEC expenditure is significantly lower than OECD and EU averages (OECD, 2018[35]). Younger children are more strongly impacted by limited access, yet the rate of ECEC enrolment is lowest for children aged 2-3 years. Enrolment rates of 5-year-olds have been steadily increasing, especially as some economies have made ECEC attendance mandatory at this age. To date, children from poor and disadvantaged backgrounds, including Roma children, remain less likely to participate in ECEC.

ECEC access is limited by insufficient publicly-funded options and the high cost of private alternatives. In the region's main urban areas, high demand for ECEC results in long waiting lists; meanwhile, many rural areas lack any access to any ECEC services. The low supply of publicly-funded ECEC facilities and services reflects, in turn, the underlying challenges of financing for ECEC. In the absence of publicly-funded options, the high cost of private preschool education limits participation, particularly for children from low-income families.

Policy options for strengthening early childhood education

Improving access to ECEC will require a multi-faceted effort. More public financing for ECEC will need to be complemented with awareness raising efforts to strengthen demand for such services in many communities. Special focus will also need to be placed on poor and disadvantaged communities and groups who can benefit the most from ECEC enrolment. While many OECD countries still grapple with the challenge of boosting access to ECEC, their past and present efforts provide some good practice examples to be considered and adapted.

- **Strengthen awareness of the importance of ECEC among policy makers (e.g. through trainings, workshops, participation in international conferences) and the general public.** Targeting policy makers is critical for strengthening the buy-in and subsequent implementation of ECEC reforms. This is particularly important in Bosnia and Herzegovina, which has a highly decentralised education system with a high degree of autonomy at the local level (Section 2.3.7). Engaging with the general public is also critical for addressing demand-side constraints, especially among the poorest and most marginalised communities. New Zealand's "Engaging Priority Families" initiative focuses on families with children aged 3-4 years who do not attend ECEC. Through home/group sessions, this initiative teaches families how to be more involved with their child's early learning, how to choose learning services that are right for them and how to support their children when they transition to school (Government of New Zealand, 2021[87]).
- **Increase financing for ECEC through, for example, reallocation of funding from primary education and setting criteria for the most efficient and effective allocation of this financing.** Good practice shows that setting criteria for allocation of financing to municipalities and schools can lead to better and more equitable enrolment and learning outcomes. Since 2016, Poland has nearly doubled the number of children in preschool education, thanks to increased financing for ECEC and implementation of a grant programme ("Toddler +") that provides financing to communes for facilities, based on criteria such as quality of services to be offered, and unmet demand for ECEC (European Commission, 2021[88])
- **Improve the infrastructure for ECEC, targeting in particular rural areas and municipalities with no ECEC facilities or services**. Investments in hard infrastructure for ECEC can be complemented with additional services focused on the poorest communities For example, the UK's Sure Start programme can serve as an example of how families with children under the age of four living in the most disadvantaged areas can be targeted for additional support in order to improve children's learning skills, health and well-being, as well as their social and emotional development. Launched in 1998, it has since been found that children who participated were later

more likely to have a job and less likely to have a criminal record. A cost-benefit analysis found that, by the time the child reached 21 years, the programme generated savings in public expenditure of USD 7.14 per USD 1 invested (RSM McClure Watters, 2015[89])

- **Provide financial support for the most vulnerable families to support participation in ECEC.** As noted earlier, ECEC is particularly important for children from more disadvantaged socio-economic backgrounds. Financial support targeting such children can thus be a good investment of scarce financial resources.

2.4. Boosting competencies beyond formal education

Strategy for competencies should go beyond the formal education system to improve also competencies among the working-age population. The Western Balkan region has many opportunities to boost competencies; to date, these remain too fragmented. Three policy levers offer potential:

- *Creating opportunities for adult learning*. The extent to which individuals, firms and economies can harness the benefits of global trends and domestic developments will critically depend on the readiness of each economy's adult learning system to help people develop and maintain relevant skills over their working careers (OECD, 2019[90]). In recent years, there has been an increasing awareness that demand-side issues – i.e. how employers use skills in the workplace – are just as important (OECD, 2016[91]).
- *Leveraging foreign direct investments (FDI) to increase transfer of knowledge and skills*. Many economies have attracted FDI in recent years. Foreign enterprises are an important source of knowledge; access to that knowledge could be further leveraged by boosting the competencies of people who work for foreign companies, as well as their suppliers. Foreign companies can also provide invaluable inputs for curricula development and modernisation. Investment promotion policies and aftercare services can play an important role in targeting investments with high potential for competency-related spillovers and support the development of linkages.
- *Establishing links with diaspora.* The region's large diaspora living in OECD economies already plays an important role as a source of foreign capital. As yet, the region has not sufficiently tapped into the knowledge and competencies of these emigrants, which are not available at home. Building networks with diaspora and creating opportunities for the transfer of knowledge may additionally boost domestic competencies.

2.4.1. *Creating opportunities for adult learning*

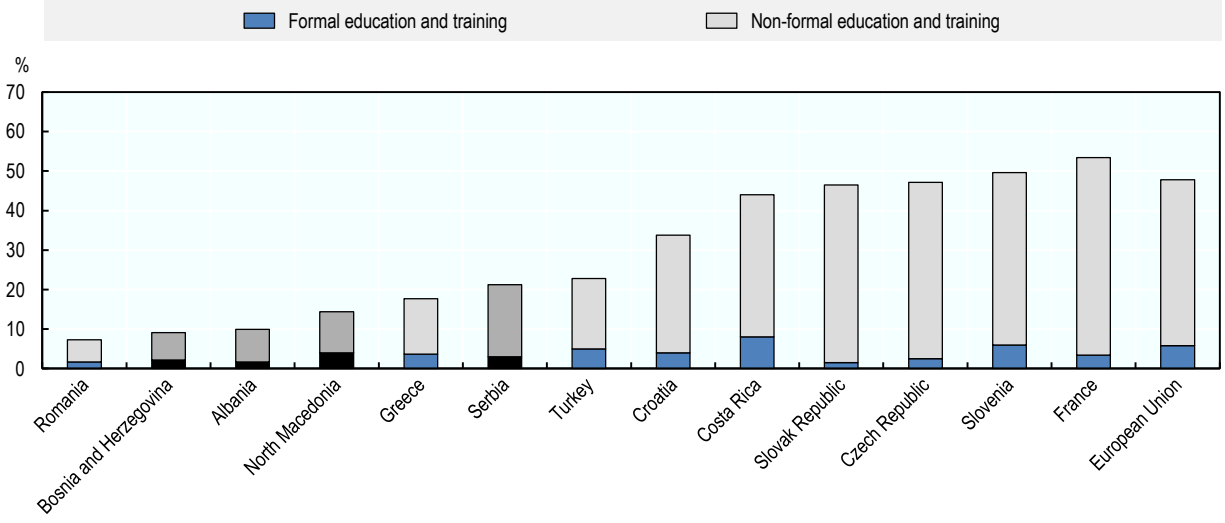
Adult learning systems[2] are critical for economies facing economic and demographic transitions. Competencies in the Western Balkan workforce are under pressure. Automation is expected to change skill needs within existing jobs, while making certain jobs disappear altogether. New technologies and changes in work organisation are creating new jobs with very different skill needs than those they are replacing. Globalisation is raising demand for high-level skills that can help economies remain competitive by moving up global value chains. These pressure points act against the backdrop of comparatively low levels of basic skills among the current adult workforce in the Western Balkans, combined with population ageing, which is increasing the need for individuals to maintain and update their skills over longer working lives. It also increases demand for certain specific services and qualifications (notably healthcare professionals and elderly care personnel) (Forti, 2019[92]).

Supply-side interventions will not achieve the desired effects of promoting innovation and raising productivity and economic growth unless accompanied by demand-side interventions that foster recognition and use of these skills in practice. A person's decision to acquire certain skills and pursue a certain field of study do not depend exclusively on the possibility of eventually using them in the labour market. It should be noted, however, that a misalignment between the skills of the workforce and those required by employers will constrain innovation and hamper the adoption of new technologies (OECD, 2016[91]).

Adult education is critical to adequately face these challenges; yet in Western Balkan economies, only a relatively small share of adults participates in any kind of formal or non-formal education and training activities (Figure 2.16). Going forward, much needs to be done to improve both the offering and participation.

Figure 2.16. Adult participation in education and training is very low

% of adults (aged 25-64) participating in education and training, 2016



Source: Eurostat (2020[93]), Database - Skills-related statistics, https://ec.europa.eu/eurostat/web/skills/data/database.

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Policy options to improve adult learning systems

To improve adult learning systems, the OECD Priorities for Adult Learning (PAL) dashboard suggests that significant room exists for improving the future readiness of adult learning systems across Western Balkan economies. Governments in the region can employ a range of policy levers to address different challenges in the following areas: coverage and inclusiveness; alignment with skill needs; perceived training impact; financing; co-ordination and governance; and addressing use of skills at work.

- **Promote the benefits of adult learning, providing high quality information and individualised advice and guidance services**. This includes public awareness campaigns, career guidance, online databases of adult education and training, and other interventions. Since 1996, the Institute for Adult Education in Slovenia has been organising an annual lifelong learning week, which today includes more than 1 500 events organised in co-operation with partner organisations throughout the country (OECD, 2019[90]).

- **Address barriers to participation through flexible training provision, statutory education and training leave, and financial incentives.** Addressing barriers may be achieved through training subsidies, tax incentives and loans, paid training leave, and recognition of prior learning, including informal learning. In Austria, the public employment service (PES) covers the costs of training and education courses and course-related costs for low-income job seekers and employers, including for learning materials, specific clothing and accommodation) (OECD, 2019[90]).
- **Encourage employer engagement in adult education and training.** This can be achieved through, for example, better information about the benefits of training and the availability of training opportunities; building capacity to offer training; and providing financial incentives (training levies, tax incentives and subsidies). In the United States, financial incentives include individual subsidy schemes, such as individual learning accounts. Sweden meanwhile offers provisions for training leave (OECD, 2019[90]).
- **Collect and use high quality skills assessment and anticipation (SAA) information to align adult learning policy more strategically with labour market needs.** In Spain, the public employment agency continuously assesses the training needs in the labour market in co-operation with the Autonomous Communities and social partners (OECD, 2019[90]).
- **Design targeted programmes for adults whose skills are likely to become obsolete in the future, such as those working in sectors undergoing structural change.** In Austria, Outplacement Labour Foundation programmes support workers in the case of structural changes through appropriate labour market policies, including through provision of training, career guidance and job-search assistance (OECD, 2019[90]).
- **Build the capacity of adult learning providers to implement a quality assurance system.** Guidelines, criteria and quality standards can form the basis of a framework against which to evaluate the quality of training, for example certifying and awarding quality labels to providers meeting specified quality criteria. Germany provides a nationwide certification process for adult learning provision) (OECD, 2019[90]).
- **Encourage the uptake of non-formal trainings, including by recognising the competencies acquired.** Non-formal trainings can be provided by education institutions, teachers and various other private sector providers. While generally such institutions do not provide official recognised certifications, the competencies gained could be recognised as competencies needed to perform concrete functions. In France, personal training accounts (Compte Personnel de Formation) introduced in 2015 allowed individuals to accumulate entitlements of training credits. The accrued entitlement is transferable between jobs and if there is a change of employment status (OECD, 2019[90]).
- **Making active labour market policies effective in connecting job seekers with training opportunities.** Active labour market policies (ALMPs)[3] play an important role in making job seekers job-ready, including through trainings. This will require strengthening the capacities of the public employment agency (PES) to ensure a personalised and adapted approach to individual needs, as well as a strong collaboration with training providers. At the same time, profiling tools help increase the efficiency of PES services by targeting resources to those most in need and offering job seekers services and support adapted to their profile (Chapter 8).

2.4.2. *Leveraging foreign direct investments*

FDI, which could be an important source of knowledge to boost competencies in the Western Balkans, has led to limited knowledge spillovers to date. Access to knowledge of foreign investors could be further leveraged by boosting the competencies of people who work for foreign companies and/or their suppliers. While FDI (Figure 2.17) has contributed to diversification and sophistication of the manufacturing and service sectors (e.g. by increasing exports and creating new jobs), linkages to the local economy and knowledge spillovers have been limited (OECD, 2017[94]). Although variations are evident across economies, the use of different incentives (e.g. labour-related tax exemptions and subsidies) has attracted investments mainly in labour-intensive manufacturing, limiting technological and knowledge-related spillovers (OECD, 2017[94]). Yet, even in low value-added sectors, adequate capacities of domestic firms are required to create linkages with foreign companies. In the case of North Macedonia, which has managed to attract substantial FDI, local firms are often unable to fulfil technical and safety requirements for exports to the European Union (IMF, 2015[95]). Strengthening the capabilities of domestic firms is essential, especially for SMEs (OECD, 2021[96]). While more policy efforts are required to strengthen linkages with domestic economies, examples form North Macedonia and Serbia show great promise in this regard (Box 2.3).

Box 2.3. Creating linkages with foreign investors in North Macedonia and Serbia

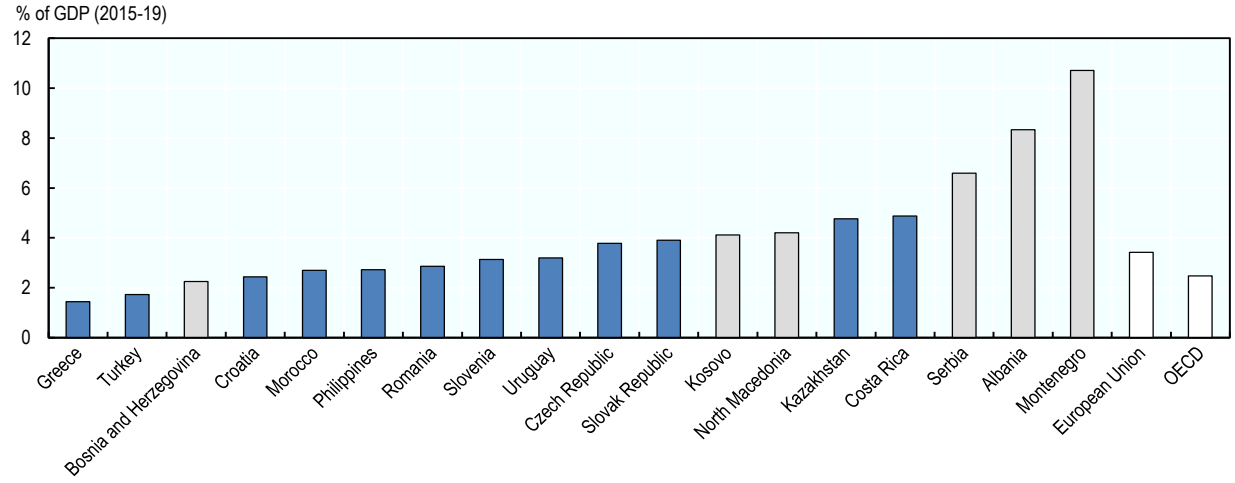
In North Macedonia, two new qualifications (industrial mechatronics technician and production machines technician) were introduced in 2018 and 2019 in VET schools based on the initiative of the Delegation of German Industry and Commerce and the 12 partner companies (Vitaminka, Marquardt, Kromberg&Schubert, Dräxlmaier, LTH Learnica, WIK, ODW Elektrik, Gentherm, Kostal, Magna International, Kiel, and Brako), among which two are from North Macedonia. These two qualifications encompass a higher amount of work-based learning, and the companies themselves are actively involved in the creation of the curricula. The German curricula served as a foundation for the respective qualifications. Every year 100 new training places are available for the two qualifications and so far about 340 new students have enrolled across six different cities (Veles, Kavadarci, Prilep, Bitola, Tetovo and Ohrid). The upscaling of such initiatives can lead to an important transfer of competencies to students and can serve also as a stepping stone towards an entrepreneurship (e.g. as suppliers to larger enterprises). In addition, many of the above mentioned companies have special spaces with modern didactic equipment intended for practical training of students as part of work-based learning.

In Serbia, several companies in special economies zones have been undertaking upskilling activities and have established collaboration with VET schools. The steel chain producer Rosa Catena, which is located in the special economic zone of Smederevo, started sending their employees to trainings abroad. Fiat-Chrysler, the largest foreign investor in Serbia, located in Kragujevac, has built their own training facilities. In the special economic zone of Subotica, companies Continental and Calzedonia, both located in the special economic zone of Subotica, and a secondary vocational school signed a co-operation agreement to establish permanent work-based learning components in the local VET school. In the special economic zones of Pirot, a similar co-operation initiative led to a new training programme on freight forwarding.

Source: North Macedonia – Information obtained from the Delegation of German Industry and Commerce in North Macedonia. Serbia – Bartlett, Krasniqi and Ahmetbašić (2019[97]), Attracting FDI to the western special: Special economic zones and smart specialization strategies, https://ideas.repec.org/a/iez/survey/ces-v21_2-2019_bartlett-krasniqi-ahmetbasic.html.

Figure 2.17. Most of the regional economies have managed to attract important foreign direct investment in the Western Balkans

Foreign direct investment, net inflows (% of GDP), 2014-19



Source: World Bank (2021[23]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

StatLink https://stat.link/1gbl4a

Current efforts to promote investment would benefit from a more proactive approach. All Western Balkan economies have created investment promotion agencies (IPAs) with a mandate to promote and facilitate inward FDI, identifying particularly relevant economic sectors. North Macedonia and Serbia have proactive approaches to FDI attraction and use co-ordinated targeting strategies to reach potential investors. In North Macedonia, the Directorate for Technological Industrial Development Zones bases targeting activities on assigned geographical areas and leverages its sectoral knowledge through an effective client relationship management system (OECD, 2019[98]; OECD, 2017[94]). Other IPAs in the region, however, have a more reactive approach, generally assisting only companies that have already expressed interest in investing (OECD, 2018[35]). This is a lost opportunity for identifying and attracting FDI with potential to boost competency.

Aftercare by IPAs is equally important for sustaining investments. IPA aftercare comprises a broad set of measures aimed at keeping existing investors satisfied, encouraging them to expand their activities or reinvest in new ones, and fostering linkages with domestic companies. This can be done through regular dialogue with the private sector, whereby various business challenges and support measures can be addressed and brought to the attention of policy makers. Such platforms generally do exist in the region; however, they often involve only large multinational enterprises, indicating limited knowledge transfer to domestic enterprises (OECD, 2019[98]; OECD, 2018[35]).

Policy options for leveraging FDI to improve domestic skills

To attract more and better FDI, and to enhance knowledge spillover, governments in the Western Balkans may consider the following options (OECD, 2019[98]).

- **Strengthen the institutional framework for investment promotion and facilitation**
  - *Develop and adopt a clear strategy to attract FDI and proactively target investors.* Experience shows that proactivity can be the difference between investors choosing one destination over another with similar fundamental considerations.
  - *Boost the capacities and resources of IPAs in line with a clear mandate.*

- *Reinforce the role of IPAs in facilitating investment*, notably through better co-ordination with other government bodies and agencies**.** Investment facilitation requires an "all-of-government" approach, with so strong inter-institutional co-ordination being critical.

- **Maximise the spillover potential of FDI**
  - *Target investors and investments with high potential for establishing linkages with the local economy.* The case of North Macedonia suggests that focusing on niche manufacturers can be a potential strategy for attracting investment with higher potential for integration with the local economy and for positive spillovers in the form of backward linkages, training and education. Since its investment in an assembly plant in North Macedonia, bus manufacturer Van Hool has become much more integrated in the local economy than other investors in technological and industrial development zones. In fact, a supplier relationship developed with local machinery manufacturer, Aktiva, has grown substantially and now extends beyond the manufacturing needs of the North Macedonia plant. Van Hool provides apprenticeships for students in relevant VET and higher education tracks. Van Hool has also opened a training centre that serves people beyond its own employees and participates in initiatives to develop or upgrade curricula in line with labour market needs (OECD, 2017[94]).
  - *Design incentives to attract FDI with higher potential for spillovers.* Most incentives to attract FDI to the Western Balkans centre around reducing the cost of labour, which tends to attract labour-intensive manufacturing. This is helpful in boosting manufacturing employment but has limited scope for technological upgrading or for transfer and development of knowledge-intensive industries. Alignment with the latter objectives, would thus require re-thinking and re-design of the incentive schemes.
  - *Focus on investor aftercare services that can maximise spillover potential of FDI.* Developing and regularly updating supplier databases can facilitate the establishment of supplier relationships.

- **Develop relevant competencies and support domestic innovation by strengthening collaboration among domestic and foreign enterprises**
  - *Develop and implement relevant training programmes across different sectors*. A network of local and foreign companies could be established to develop various training programmes.
  - *Promote quality improvement in technical fields, such as design and product engineering, by adopting and implementing sector-specific linkage programmes.* This could include matchmaking activities between international companies and local suppliers and fostering exchanges with foreign companies (e.g. company visits and internship schemes, among others).
  - *Support workforce training and digital leadership to boost SME capacities for internationalisation and enhanced linkages with FDI.* Currently, many SMEs lack sufficient resources to develop training programmes and training providers lack content sufficiently developed to the specific needs of SMEs. Creating multi-stakeholder consortia at the sector level, including foreign companies, to share workforce training costs is one way to address these issues.
  - *Introduce measures to encourage greater mobility of researchers to work for foreign enterprises.* Entrepreneurial leave of absence is one such measure.

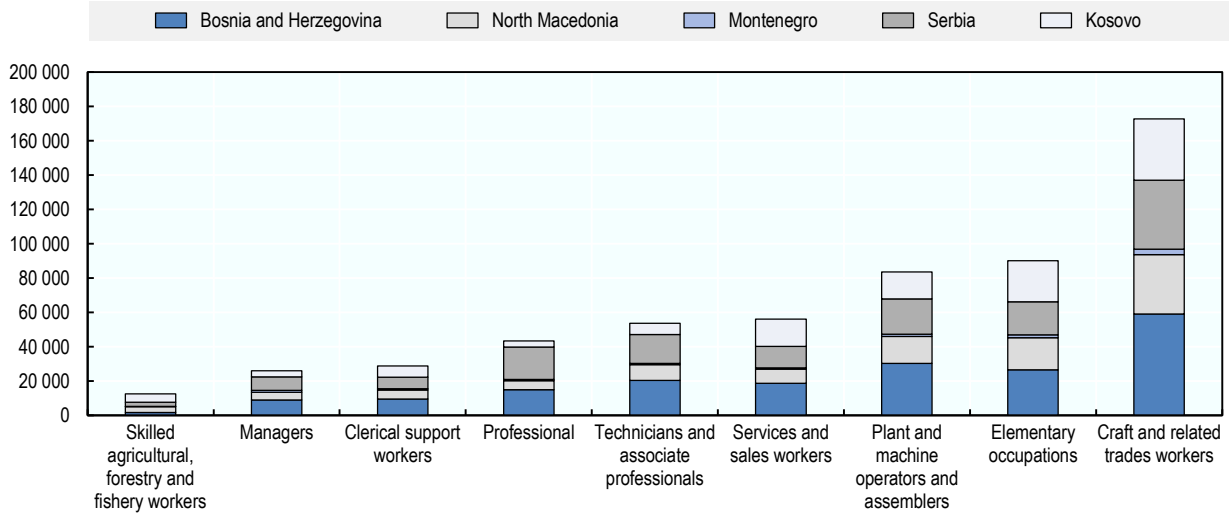
2.4.3. *Creating links with the diaspora*

The diaspora can be an important source of knowledge transfer for the Western Balkans. India provides a strong example of how the diaspora can influence domestic economies: its software industry has boomed thanks to sustained ties with Indian migrants and returning diaspora members**.** Western Balkan economies should also recognise that diaspora members may help domestic firms gain access to technology and skills through professional associations, temporary assignments of skilled expatriates, distance teaching and the return of emigrants with enhanced skills (Mezghenni Malouche, Plaza and Salsac, 2016[99]).

The potential of the Western Balkan diaspora remains largely untapped. An important share of citizens of the Western Balkans that currently live in OECD countries have important skills sets: about 55% have work in positions such as: plant and machine operators and assemblers, services and sales workers and craft and related trades workers (Figure 2.18). The diaspora tends to maintain familial connections to their countries of origin, as evidenced through the large volumes of remittances that flow to the region every year (World Bank, 2021[23]). To date, however, the diaspora has not played an important role as a source of knowledge and competencies.

Figure 2.18. A large share of Western Balkans people living in OECD countries have important skills

Number of people from the Western Balkans living in OECD economies, 2015-16



Source: OECD (2016[100]), *Database on Immigrants in OECD and non-OECD Countries: DIOC* (database), www.oecd.org/els/mig/dioc.htm.

StatLink https://stat.link/nbeyi2

Policy options for maximising the knowledge benefits from the diaspora

Building networks with the diaspora and creating opportunities for knowledge transfer may additionally boost domestic competencies (Mezghenni Malouche, Plaza and Salsac, 2016[99]; IOM, 2006[101]).

- **Map out the diaspora and engage strategically with a small group of high-achieving individuals in an elite programme.** Examples from Chile include managed networks include Global Scot and Chile Global from Chile, which have enlisted some 600 and 100 members. Likewise, Tunisia recently established the "ambassador" programme, targeted toward diaspora professionals with managerial positions in the IT industry, to promote Smart Tunisia abroad.
- **Develop a deeper and more trusting relationship with diaspora.** This can be done through positive communication and specific measures to respond to the needs and requests of the diaspora (e.g. transportation, citizenship rights, property rights, banking needs, and infrastructure development).
- **Proactively facilitate connections between the diaspora and local entrepreneurs by improving the flow of information about business opportunities and diaspora availability around the globe.**
- **Encourage diaspora contributions to competitive research and innovation in their home economies.** Research excellence contests pioneered in Croatia (2008), Mexico (2009) and Russia (2010) provided matching funds to organisations in the home economy that set up a joint project with diaspora members.
- **Systematically call on the professional diaspora and business angels to provide mentorship and seed financing to high-growth entrepreneurs, particularly in early-stage seed deals.**
- **Link incentives targeting diaspora contributions with diaspora rights.** Dual citizenship, voting rights, property rights, pension and social security benefit transfers, savings schemes and identification cards that offer remittance transfer services at low rates are all examples of rights and services that can be provided to diaspora members while formally acknowledging their transnational belonging.

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Notes

[1] The visioning workshop in Bosnia and Herzegovina was cancelled due to the COVID-19 pandemic.

[2] Job-related adult learning systems consist of: i) formal education and training, which leads to a formal qualification; ii) non-formal education and training that does not necessarily lead to formal qualifications, such as structured on-the-job training, open and distance education, courses and private lessons, seminars and workshops; and iii) informal learning, i.e. unstructured on-the-job learning, learning by doing or learning from colleagues (OECD, 2019[90]).

[3] Active labour market policies traditionally include different types of interventions: i) matching job seekers with current vacancies; ii) upgrading and adapting job seekers' skills; iii) providing employment subsidies; and iv) creating jobs either through public sector employment or the provision of subsidies for private sector work.

3 Boosting education and competencies in Albania

Over the past decades, Albania has taken important steps to strengthen domestic competencies. Learning outcomes, as measured by the OECD's Programme for International Student Assessment (PISA), have been rapidly improving. Recent adoption of competency-based curricula and teacher standards are an important basis to improve learning outcomes. To further boost domestic competencies needed for Albania's economic transformation and civic participation, this chapter puts forward key policy priorities at the formal education setting and beyond. Boosting the digital skills of students should be a top priority, given Albania's thriving information and communication technology sector. As two distinct ministries hold responsibility for competencies in education, scope exists to improve governance through effective co-ordination and policy coherence. Albania should also improve the quality and attractiveness of vocational education and training (VET), a key education stream to provide job-ready skills. Increasing collaboration between VET and the private sector would be particularly important. Given the rapid pace of technological progress and changing business needs, creating better opportunities for adult learning is also vital to boosting competencies of the current workforce.

The Initial Assessment of this Multi-dimensional Review of the Western Balkans identified education and competencies for economic transformation as the top priorities for Albania and for all economies across the region (OECD, 2021[1]). While economic structures vary significantly from one economy to another, finding new sources of productivity growth and engines for future transformation is an urgent task for all the regional economies. Good jobs are scarce and young people continue to leave. Boosting youth and workforce competencies can unlock new opportunities to overcome these trends. The more unfavourable an economy's current wage-to-productivity ratio, the more urgent it becomes to find new and more productive activities to build a strong economy.

High-quality education also tops the list of aspirations for the future in Albania and in the region. Quality education is an essential element of quality of life for all; young people in school; families; those who want opportunities for their own children; those who want to have children in the future; and those who depend on younger generations to shape the future of their societies. Beyond innovation and economic opportunity, education also matters for civic engagement and respect for diversity and for the rule of law. With impressive unanimity, quality education ranked topmost in all four aspirational foresight workshops held in Tirana and other capitals of the region as part of the Initial Assessment of this review (OECD, 2021[1]).[1] The foresight workshops gathered a range of participants from various ministries and agencies, the private sector, academia and civil society, who developed vision statements based on narratives of the lives of future citizens.

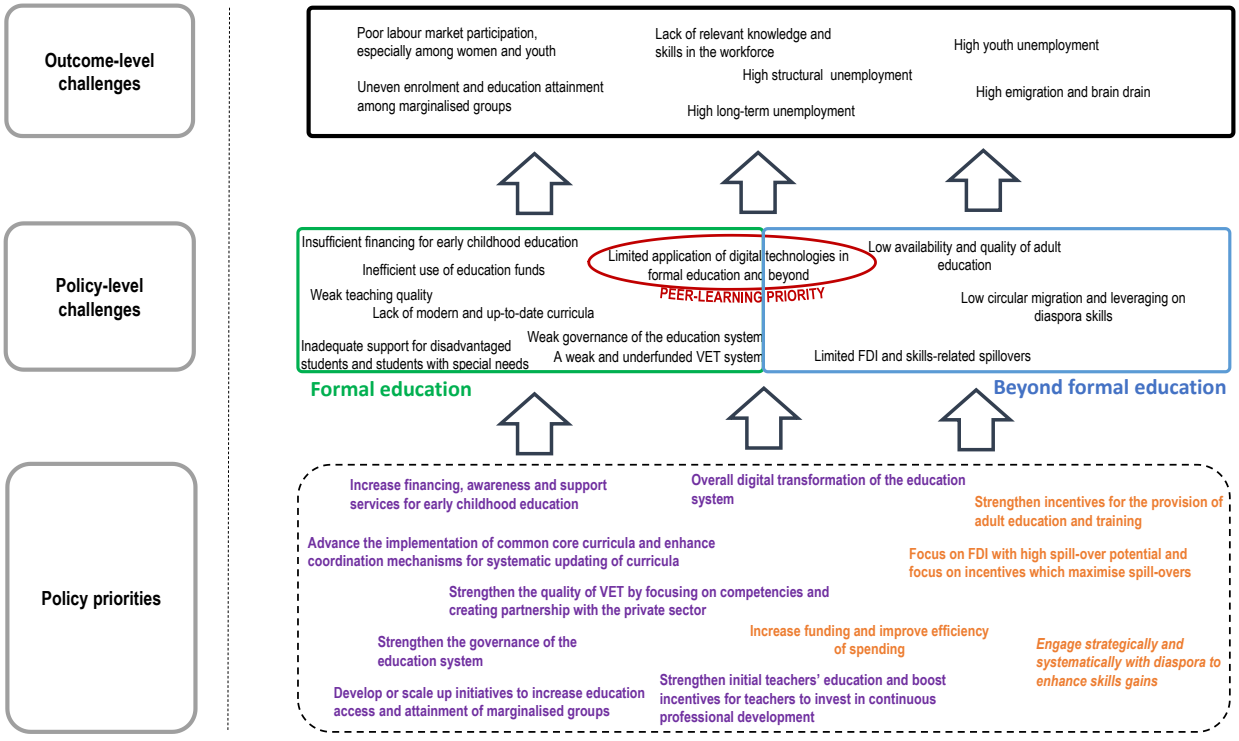
This report builds on an extensive peer-learning process with practitioners in the region and expert assessment to provide suggestions for strengthening education and competencies in Albania and in the region. Building on the Governmental Learning Spiral methodology (Blindenbacher and Nashat, 2010[2]), two peer-learning workshops brought together experts and practitioners from across the region and beyond to prioritise among challenges and solutions, develop ideas for action, and learn from each other (Box 2.1 of Chapter 2). The peer-learning workshops on education and competencies served three complementary aims: to identify of outcome-level challenges hampering the build-up of competencies; to identify key policy challenges; and to put forward key policy priorities for Albania and for the region (Figure 3.1).

Over the past decade, Albania has taken important steps to boost the quality and relevance of education across all levels. Learning outcomes, as measured by the OECD's Programme for International Student Assessment (PISA), have improved quickly in Albania, placing it among the fastest improvers. In science, Albania's mean performance increased particularly quickly between 2009 and 2015, rising by 37 score points (OECD, 2018[3]). As a result, learning outcomes are now similar to the average for all Western Balkans economies. In 2021, Albania has approved the National Education Strategy for 2021-2026, which integrates the pre-university education strategy and the university education strategy (Ministry of Education, Sport and Youth/UNICEF, 2021[4]). The strategy gives great importance to inclusiveness and equality in education, strengthening the competencies of teachers, mastery of lifelong learning competencies, digitalisation of education, and quality management and assurance. In recent years, a new law for vocational education and training (VET) has encouraged engagement between vocational schools and the private sector, especially through work-based learning.

To sustain progress in building key competencies of students and adults, Albania must now tackle a set of important remaining challenges. Albania's education outcomes also vary by geographical region. Many companies in Albania report that they cannot generate jobs because they cannot find the skilled workforce needed to fill them. Some 25% of firms recently surveyed identified an inadequately educated workforce as a major (the third-largest) obstacle to business (World Bank/EBRD/EIB, 2019[5]). Although digital technology offers potential for Albania (in the ICT sector and more broadly), the lack of digital skills can be an important bottleneck for development. In 2019, about a fifth of Albanians (21%) still had basic or above basic skills, low in comparison to the EU average at 56% (Eurostat, 2021[6]). The pupil-teacher ratio in primary, secondary and upper secondary education is rather favourable; the teaching quality, however, remains inadequate. Improving teacher quality is especially important given the recently

adopted competency-based curriculum. VET, which is key for generating labour-market relevant competencies in any economy, remains an unattractive option for many students; as many students choose to pursue studies in areas that are in low demand, the current system leads to both lack of skills and skills mismatch.

Figure 3.1. Strengthening education and competencies in Albania and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

This chapter proposes eleven priorities for strengthening education and competencies in Albania, with overall digital transformation of the education system being the key priority identified by peer-learning workshop participants (Figure 3.1).

- Overall digital transformation of the education system (peer-learning priority)
- Increasing access to early childhood education and care (ECEC)
- Foster equitable education at all levels
- Strengthen the governance of education policy
- Ensure adequate financing and improve efficiency of spending
- Update and modernise curricula
- Upgrade and further professionalise the teaching profession
- Reform vocational education and training and link it to labour market needs
- Increase access to and quality of adult education
- Leverage foreign direct investment to boost skills
- Foster closer linkages with diaspora.

This chapter is divided into three sections. Sections 3.1 and 3.2 provide policy implications for Albania across the eleven policy actions through a prism of challenges specific to Albania. Section 3.3 provides indicators against which policy progress can be measured in implementing all the policy priorities for Albania. This chapter is complemented by the regional chapter (Chapter 2) by providing more specific policy options for the eleven policy actions based on international practices that may be applied, albeit to different degrees, also to Albania.

3.1. Improving the quality and relevance of formal education in Albania

3.1.1. Overall digital transformation of the education system

The peer-learning participants from Albania selected digital transformation of the education system as a key priority to strengthen competencies of the future workforce and to create new opportunities in the emerging information and communication technologies (ICT) sector. Globally, digital tools and their use have become an increasingly important part of schooling. Application of digital technologies implies the use of computers and technologies for several purposes: to access the internet; to obtain and share knowledge among students and teachers; to use learning analytics in order to collect data and measure performance; and to setup collaborative learning networks to solve problems and foster creativity among students (van der Vlies, 2020[7]). But digital technology alone does not generate outcomes: these tools needs to be complemented with skilled teachers (OECD, 2015[8]). Skill in using digital technologies also offers growth opportunities in the emerging ICT sector and is a key means to boost productivity in all economic sectors, highlighting the importance of ensuing that adults also acquire relevant digital skills.

At the level of formal education, building on recently developed teachers' standards, developing and implementing a performance appraisal system linked to career advancement, and increasing teacher training were identified by peer-learning participants as three priority actions to improve teaching quality (Box 3.1). In vocational schools, a lack of dedicated ICT teachers is among the key obstacles to developing the digital skills of students: 77% of teachers report needing training in the use of ICT for teaching purposes. Recognising this shortcoming, the National Employment and Skills Strategy and its Action Plan 2014–20 (NESS 2020) provided basic skills development to 700 teachers. Yet, the subsequent results showed the need for more training and to make such training compulsory during initial teacher education (ITE) (ETF, 2018[9]).

Beyond formal education, Albania needs to support VET and emphasise work-based learning, especially in ICT companies (Box 3.1). Work-based learning is still nascent in Albania and not yet compulsory for initial vocational education (ETF, 2020[10]) (Section 3.1.8). Considering that ICT is among the fastest-growing sectors in Albania and has attracted foreign investors, this is a missed opportunity. In 2018, the ICT sector accounted for 2.9% of GDP (OECD, 2021[11]). However, innovative firms in Albania face higher obstacles when searching for new employees, for both routine and non-routine tasks (World Bank/World Bank/WIIW, 2020[12]).

Box 3.1. Peer-learning priority in Albania: Overall digital transformation of the education system

To improve educational outcomes through digital technologies in Albania, participants of the peer-learning workshops suggested several actions that could complement current policy efforts in Albania,[2] including:

- *Build on recently developed teachers' standards to strengthen teacher's skills.* In July 2020, Albania issued new teachers' standards, which defines also the use of digital competencies.
- *Promote and support the use teachers' standards on digital skills to improve teaching, especially by developing and implementing a performance appraisal system linked to career advancement.* Albania has in place general teachers' standards, covering main areas; these are not, however, adequately used to assess teacher performance, especially in relation to promotion.[3] The existing appraisal process thus fails to incentivise teachers to undertake continuous professional development (CPD). Going forward, Albania could revise the career structure by connecting higher career stages with high levels of competencies, including by: drawing on multiple sources of evidence to assess teacher competencies and motivation (e.g. classroom observations, interviews and use of qualitative inputs from a given teacher's regular appraiser); contracting external appraisers (such as staff of the Quality Assurance Agency); and providing guidelines and tools to support the work of external appraisers.
- *Increasing training of teachers, focusing on digital skills.* To support the above, it would be important to offer various professional learning opportunities that allow teachers to develop competencies for career advancement. Recent initiatives on blended learning, such as those recently undertaken by the Swisscontact – Swiss Foundation for Technical Cooperation as part of the project "Skills for Jobs" – could be further scaled up.
- *Encourage collaboration between VET providers and enterprises, especially through work-based learning and particularly in professions related to digital skills.* Work-based learning could deliver substantial mutual benefits in Albania. Students can benefit from the knowledge of innovative firms, while companies can secure their future growth by acquiring a competent and knowledgeable workforce. Peer-learning participants stressed the importance of identifying IT companies and scaling up work-based learning through collaboration with vocational schools.

The proposed actions can complement current key strategic documents across a range of policy areas, including: the upcoming Strategy for Development and Integration (2020-2030); the new Education Strategy; the Employment and Skills Strategy 2019–2022; the Digital Agenda 2015-2020; and the National Strategy for Science, Technology and Innovation 2017-2022.

To ensure well-targeted implementation of the proposed actions, the peer-learning participants stressed the need to work across four areas: build on the existing skills gaps[1] assessments; develop and make available relevant digital learning material; implement various pilot projects; and ensure a broad collaboration of various stakeholders in the process.

[1] The donor-funded Skills Development for Employment (SD4E) Programme has implemented a complete skills needs analysis (including 2 560 enterprises covering all sectors of the economy) (OECD, 2021[11]).

Source: OECD peer-learning workshops; Ministry of Education, Sports and Youth (2020[14]), Professional Standards for Teacher's Training in the Pre-University Education, https://www.ascap.edu.al/wp-content/uploads/2020/07/SPFPFLMSAP.pdf; Maghnouj et al. (2020[14]), OECD Reviews of Evaluation and Assessment in Education: Albania, https://dx.doi.org/10.1787/d267dc93-en.

To complement the actions above, Albania should upgrade its digital infrastructure, which remains an obstacle for applying digital technologies in schools and beyond. Schools in Albania lack computers and have poor access to the internet; at about 0.2 computers per pupil, schools are substantially below the average of OECD countries of 0.8 (Figure 2.10. of Chapter 2). Additionally, while nearly all school computers in OECD countries are connected to the internet, in Albania the figure is just over 70% (OECD, 2020[15]). Although improving, in 2020, only 25% of Albanian schools had internet access at a speed above 10 Mbps (megabytes per second) (OECD, 2021[11]). Likewise, only one-third of pupils attend schools where the principal feels effective online support is available, compared with more than half of pupils in OECD countries. In turn, less than half of Albanian pupils attend schools where principals report adequate software, compared with more than two-thirds of pupils in OECD countries (OECD, 2020[15]).

Albania should develop frameworks for digital skills and competencies, and define IT qualifications and curricula, especially in collaboration with the private sector. While the Albanian Digital Agenda 2015–2020 highlights the importance of integrating the use of ICT in the education system, and the National Pre-University Curriculum Framework mentions it as one of seven key competencies for general and vocational education, both documents lack any concrete framework on how digital skills and competencies should be integrated into the learning practice (ETF, 2018[9]). IT qualifications and curricula are not yet defined within the Albanian Qualifications Framework (ETF, 2018[9]). For curricula development, industry representatives should collaborate in defining learning outcomes (OECD, 2021[11]). Establishing a coherent approach to digital skills development across all levels of the education system is important (OECD, 2021[11]). Montenegro, as the first economy in the Western Balkans, has adopted a Digital Competence Framework aligned with the European Digital Competence Framework.

Given the skills gap of the current labour force, digital skills should also become an integral part of adult learning. Albania's current Employment and Skills Strategy 2019–2022 does not treat digital skills as a priority. Other regional economies have already started to address the digital skills gap among adults. Serbia's Digital Skills Strategy from 2021 includes a framework for adult learning as well as local coalitions for digital skills through which diverse stakeholders will participate in developing curricula. In addition, the public employment service in Serbia launched an IT requalification programme and a special programme targeting women in rural areas (OECD, 2021[11]). Learnings from the digital skills gap analysis, as stressed by the peer-learning participants, could guide training programmes and frameworks for lifelong learning.

3.1.2. Increasing access to early childhood education is critical for building foundational skills for work and for life

Albania has made important progress over recent years in increasing participation in ECEC. With 75.1% of children aged 3-5 years old attending a preschool facility in 2020, Albania is outperforming its regional peers (Figure 2.15 of Chapter 2). In parallel, Albania's preschool teaching has improved through the adoption (in 2016) of a competency-based Preschool Curriculum Framework, which is in line with contemporary child development theories and practice. In addition, a law from 2018 sets new minimum standards and special selection procedures for pre-primary school principals (Maghnouj et al., 2020[14]).

Albania should now strive to improve the quality of preschool education, including teaching and addressing physical conditions of ECEC facilities, especially by targeting rural areas. When it comes to preschool education, significant differences are evident between richer and poorer (e.g. the northeast) regions, with the migration of qualified teaching personnel to cities playing a substantial role (Maghnouj et al., 2020[14]). The physical conditions of preschool facilities in Albania require improvement and investments (Psacharopoulos, 2017[16]).

To provide the necessary resources to ECEC, a potential reallocation of funding from primary education could be considered. Financing for pre-schools makes around 0.5% of GDP or about 15.6% of total spending on education (NALAS/USAID, 2019[17]). Estimations indicate that an increase of pre-school enrolment to 90% (equivalent to additional 10 000 children) would cost about USD 2.5 million

(Psacharopoulos, 2017[16]). With primary education budget taking up a lion's share of the total education spending in Albania (56.8% in total government expenditure on education in 2015) (Maghnouj et al., 2020[14]), there is scope for potential efficiency gains in primary education spending and reallocation of some funding to ECEC. Since many children not enrolled in pre-school often come from disadvantaged families, additional financial assistance for those families for pre-school enrolment could be considered (Psacharopoulos, 2017[16]).

3.1.3. Fostering equitable education at all levels is essential for boosting the size and quality of the Albanian workforce

In comparison to many international benchmarks, students from disadvantaged backgrounds in Albania have been performing relatively well. Although a 61-point performance gap exists between students from disadvantaged families (bottom quarter of the PISA index of economic, social and cultural status) and those from top quarter, this difference is smaller than in the OECD (89 points). Albanian students from disadvantaged families are also academically relatively well resilient[4] – scoring 12.3% against 11.3% in the OECD (OECD, 2019[18]).

Going forward, providing support for children from disadvantaged families, especially those living in rural areas, can further close the education gap. Young people living in Albania's urban regions spend on average two more years in schools than their peers in rural areas (Psacharopoulos, 2017[16]). Considering that about 40% of Albanians live in rural and mountainous areas, poor quality education affects many. Large distances between school and home, lack of teacher incentives to work in rural areas (despite a national surplus of teachers), children's obligations to contribute to the family income, and early marriages (especially among ethnic communities, such as Roma and Egyptians) are some of the factors contributing to such inequalities (Maghnouj et al., 2020[14]). While Albania has been making important efforts to address the urban-rural divide, including introducing transport subsidies for teaching staff, a more comprehensive package of education and social protection policies will be required, especially in areas that are trailing behind. Among others, comprehensive financial and career development incentives could be used to encourage good teachers to work in hard-to-staff areas. In addition, sufficient preparation and support (e.g. through networking opportunities) should be given to help both new and experienced teachers to work effectively in rural schools.

Better access to education for ethnic minorities, such Roma and Balkan Egyptians, is also important for ensuring their integration, creating new opportunities and fostering social cohesion across all groups. Some estimates (based on somewhat old data) show that about half of Roma children aged 6-16 have never been enrolled in school (ACCE, 2013[19]). At about 50%, Roma and Egyptian students have among the highest dropout rates in the economy: on average, Roma accumulate about 4.4 years of schooling compared with 9.6 years among non-Roma (Psacharopoulos, 2017[16]). Census data from 2011 reveal that only 49% of Balkan Egyptian and 21% of Roma communities have attained at least a lower secondary education, low in comparison to 80% among the general population (United Nations, 2015[20]). Roma also lag in terms of education outcomes: with a literacy rate of about 65%, the Roma population is about 30 percentage points behind non-Roma neighbours (Psacharopoulos, 2017[16]).

Albania is making important efforts to improve educational outcomes for the Roma and Egyptian population, yet it would be important to scale up such activities. Some recent policy responses include measures such as a textbook reimbursement programme and efforts to promote Roma and Egyptian identities as an integral part of Albania's cultural heritage (Psacharopoulos, 2017[16]). The National Action Plan for the Integration of Roma and Egyptians 2015-2020 promoted integration of these marginalised groups. Important progress has been made, especially in improving enrolment of Roma and Egyptian children in preschool and compulsory education. From a 2015 baseline of 4 437 Roma and Egyptian children enrolled in preschool and compulsory education, the number increased to 13 310 by 2018 (CoE, 2020[21]).

During and after the COVID-19 pandemic, learning recovery needs to be handled with a close eye on equity and inclusion. As Albania is still struggling with the pandemic, learning recovery will be key. Those with fewer home resources, in terms of access to online learning at school as well as parental support and other cultural resources such as books, are likely to fall behind (Papa et al., 2016[22]). A recent OECD report (OECD, 2020[23]) collates the experiences of different countries in responding to the pandemic, including managing periods of school closure and subsequent reopening. First, targeted measures, tailored to local requirements, are needed to support pupils with few digital resources at home. Colombia, for example, developed an online learning resource for disadvantaged pupils that can be accessed on mobile phones without cost in terms of data. In Rome, city authorities are providing targeted help (including laptop provision) to Roma children. Second, given the ongoing uncertainty, some countries are developing "hybrid" models of teaching and learning, which blend face-to-face teaching (to the greatest extent possible) with use of digital resources and online learning. In such circumstances, vulnerable students who lack home digital resources must be prioritised for face-to-face teaching.

3.1.4. Strengthening the governance of education policy

In Albania, the Ministry of Education, Sports and Youth has the lead responsibility for education at all levels, with the exception of VET, which is managed by the Ministry of Finance and Economy. The Ministry of Education, Sports and Youth is responsible for strategic direction, but over the last two decades has devolved many responsibilities for managing schools, partly through by creating regional directorates and offices that manage implementation of policy (Maghnouj et al., 2020[14]).

Leverage on the new National Education Strategy for 2021-2026 by ensuring strong co-ordination and collaboration in the implementation of education policies. In the context of the previous Pre-University Education Development Strategy (2014-2020), implementation of different policies has often happened in isolation with limited co-ordination across various agencies.[5] Given that the key competencies for education policies have been divided between two ministries as described above, solid co-ordination and collaboration is even more important.

Evaluation should play a key role for the new education strategy and policy making. Albania made important progress in developing a modern education management information system (EMIS), which could provide a solid, factual basis to conduct evaluation. To date, lack of high-quality data and a relatively weak culture of evaluation limit the use of evaluation to improve policies. As a result, regular monitoring and reporting on progress is limited, and thus does not provide adequate information to address capacity constraints. At present, real-time monitoring of administrative data is not possible due to the long procedures of data reports from schools first to local education offices and then to regional directorates that compile data and share it with the ministry (Maghnouj et al., 2020[14]).

Albania should also strengthen the impact of external school evaluations by building the capacities of the regional education directorate to conduct unbiased evaluations. In 2019, Albania reorganised its external school evaluation system by shifting responsibility from the independent school inspectorate agency to regional education directorates (REDs). Previously, due to budgetary constraints, the inspectorate agency was able to conduct only a few external evaluations (Maghnouj et al., 2020[14]). At present, each RED has only four staff dedicated to this work while Albania counts a total of 3 759 schools at the primary and secondary levels (Wort, Pupovci and Ikonomi, 2019[24]). As REDs also have the role of supporting schools to improve their performance, the integrity of their external evaluation of the same schools could be compromised (Maghnouj et al., 2020[14]).

3.1.5. Ensure adequate financing and improve efficiency of spending to improve learning outcomes at all levels

Albania could consider increasing funds for education, as well as resort to potential funding reallocation. At 4% of GDP in 2019 Albania's spending on education is in line with regional peers, albeit lower than EU (4.6% – 2018) and the OECD (4.9% – 2018) averages (Figure 2.13 – Panel A of Chapter 2). As a share of total government expenditure on education, most (56.8%) goes to primary education, more than double the OECD average at 25.2% (Maghnouj et al., 2020[14]). Considering low government spending on pre-primary (15.6% of total spending on education) (NALAS/USAID, 2019[17])) and secondary education (25.4%) (Maghnouj et al., 2020[14]), some funding could be redirected to these levels – especially to secondary education, which is key for developing labour market competencies.

Building the capacities of REDs, local entities and municipalities can improve allocation of funds. While the largest part of pre-tertiary education funding comes from central funds, REDs and local education offices manage and distribute these funds to schools. Any additional funding streams are managed by local government units, such as municipalities. REDs and local education offices cover costs such as salaries of teaching staff, while local governments units deal with construction, infrastructure and maintenance. At present, the regional and local entities often lack the financial management capacities and human resources to manage funds and deliver decentralised services (Maghnouj et al., 2020[14]).

Considering the disparities across Albania, it would be important to better target the funding. While provisions in the law call for the pre-tertiary budget to be based on a per-pupil formula, this has not yet been implemented (Wort, Pupovci and Ikonomi, 2019[24]). Funding formulas provide an effective means to provide differential funding based on need and thereby help redress disparities (Maghnouj et al., 2020[14]). The peer-learning participants from Albania also stressed the need to invest in building and maintaining of dormitories at different levels of education. More dormitories, especially at the secondary education, would make it possible for young people from rural areas to have better access to education.

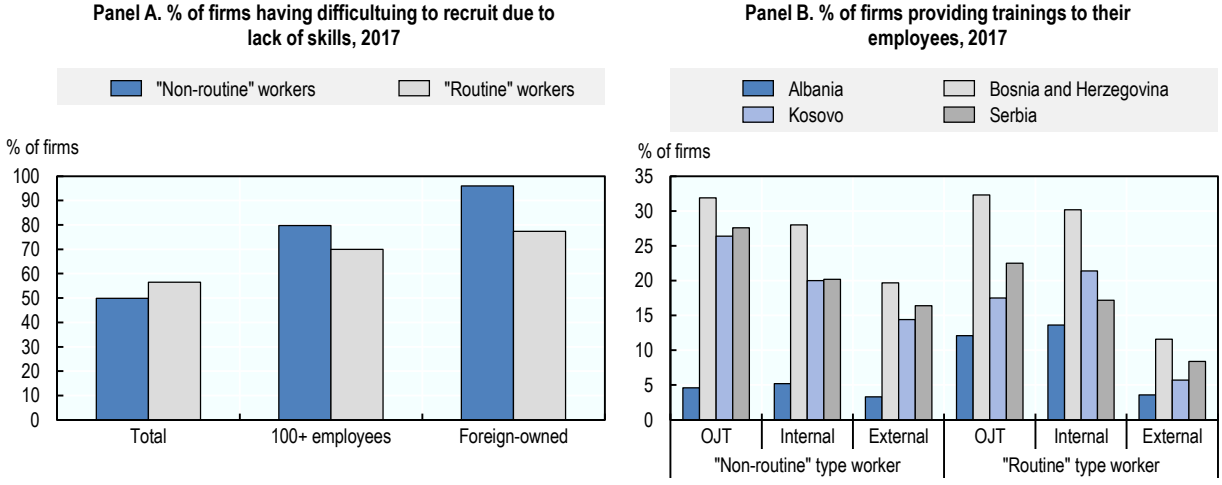
3.1.6. Updating and modernising curricula to impart relevant knowledge and skills

Given the lack of competencies currently in demand in Albania's labour market, ensuring implementation of modern curricula that focuses on current and future labour market needs is critical. Employers often cannot find the right skills among workers: 44% of firms report being constrained by an inadequately educated workforce. Skills gaps are particularly high in larger firms and foreign firms, for both non-routine and routine tasks (Figure 3.2 – Panel A). At the same time, most firms in Albania do not provide training to their employees (Figure 3.2 – Panel B).

Albania has introduced competency-based curricula across all grade levels, but teachers require more training to implement the curricula and assess student performance. Since the school year 2019/20, competency-based curricula of pre-university education has been implemented while learning standards have been introduced as a baseline for syllabuses, teacher guides and other support material (OECD, 2021[11]). Competency-based curricula focus on student-centred approaches and developing higher-order competencies of students (Maghnouj et al., 2020[14]). However, teachers received only a three-day training on the new curriculum (European Commission, 2020[25]). At the same time, an ambitious assessment framework was introduced in line with the curricula reform, which teachers are struggling to implement (Maghnouj et al., 2020[14]).

Figure 3.2. Many enterprises in Albania face difficulties finding the necessary workforce but the majority of firms do not provide training to staff

% of firms with difficulty recruiting due to lack of skills, 2017 (Panel A), and % of firms providing training to their employees, 2017 (Panel B)



Note: Panel A - The graphs show the share of firms that attempted to hire but reported difficulties due to applicants lacking skills or required experience. "Non-routine" jobs refer to managers, professionals and higher-level technicians, whose job descriptions usually contain "non-routine" cognitive and socioemotional tasks. "Routine jobs" refer to all other occupations. Panel B - OJT = On-the-job training.
Source: Adapted based on World Bank/WIIW (2020[12]), Western Balkans Labour Market Trends, https://wiiw.ac.at/western-balkans-labor-market-trends-2020-dlp-5300.pdf (original estimates based on the World Bank STEP Employer Surveys).

StatLink https://stat.link/yaztpk

3.1.7. Upgrade and further professionalise the teaching profession

Albania needs to address the oversupply of teachers and build on recently adopted teachers' standards to improve teaching quality. In Albania, the length of ITE is comparable to the OECD average (Maghnouj et al., 2020[14]). Despite a current oversupply of teachers, there are no enrolment limitations for ITE (UNESCO, 2017[26]). In some rural areas, there are only five students per teacher. In recent years, Albania made entry standards for primary teachers more selective; this has not yet been applied to secondary teacher education programmes (Maghnouj et al., 2020[14]). Demanding standards for entry to initial teacher education programmes should linked to projections of the required teacher workforce (UNESCO, 2017[26]).

Through accreditation arrangements, providers of ITE programmes should be obliged to demonstrate that they will develop the required competencies of new teachers, as reflected in new teaching standards, giving particular attention to practical experience. In Albania, ITE programmes have no commonly agreed core; as such, large differences exist between programmes offered in different universities. Discussions are underway to align the ITE curricula with the competency-based curricula already being implemented in the pre-university education system (European Commission, 2021[27]). At present, new teachers face an onerous requirement to undertake a one-year, unpaid internship. This should be replaced by an induction programme to help novice teachers develop their classroom skills with the support of trained mentors. Novice teachers should undergo a rigorous appraisal process prior to full certification. Relevant criteria for initial employment should relate to teaching and interpersonal competencies evidenced during candidates' studies, such as assessments or references from the practicum placement.

Albania should improve its regular teacher appraisals and better link them with career advancement and opportunities for continuous professional development (CPD). Although Albania undertakes annual teacher appraisals, these are rarely used to identify CPD needs (European Commission, EACEA and Eurydice, 2019[28]). Current appraisals are mainly based on quantitative targets (e.g. student grades) while lacking more qualitative criteria (such as a description of the teacher's performance and learning objectives). The Quality Assurance Agency should accelerate its planned introduction of guidelines to support appraisals (Maghnouj et al., 2020[14]). Likewise, the appraisals are not used adequately to assess teacher promotions. Currently, promotion within the teacher career structure is based primarily on years of service and an exam prepared by the Quality Assurance Agency; these criteria do not adequately measure teaching competencies (Maghnouj et al., 2020[14]).

3.1.8. Reform vocational education and training and link it to labour market needs

Making VET more attractive for students could play an important role in creating competencies needed to thrive in the labour market. Enrolment in VET is relatively low in Albania; in 2017, about 17% at upper secondary students were enrolled in such programmes, significantly lower than OECD (44%) and EU (48%) averages. One possible reason is that VET students can enrol in tertiary studies only after completing four years of vocational education, whereas only three years are required for students in general programmes. This difference makes general education a more attractive option for those planning to pursue further studies (Maghnouj et al., 2020[14]).

Albania is making important steps to better align VET with labour market needs. As part of the National Employment and Skills Strategy and its Action Plan 2019-2022, the Albanian government created an Integrated Policy Management Group (IPMG) with the objective to involve enterprises and business associations in developing occupational and qualification standards and in revising framework curricula (ETF, 2020[10]). The strategy also covers: the organisation of basic pedagogy training for all VET teachers and instructors; the creation of multifunctional centres catering to the needs of both young people and adults; and the development of flexible offerings for school- and work-based VET.

Work-based learning should be made mandatory during VET programmes and should be adequately regulated. In recent years, a new VET law has encouraged engagement between vocational schools and the private sector, especially through work-based learning. A new framework curriculum for secondary VET programmes allows for 30-35% of practical learning – to be implemented in real-work settings – during the first two years, 50% in the third year and 20% in the final year (Hilpert, 2020[29]). To date, work-based learning remains non-compulsory for initial vocational education and, in the case no company placement is found, the training is provided in VET school workshops. Regulation on obligations and rights of companies that receive students is in the drafting process but has not yet been implemented (ETF, 2020[10]).

Teaching quality in VET schools should be enhanced by exploiting the expertise of practitioners from the private sector and offering CPD to existing teaching staff. Developing options to exploit the skills of private sector practitioners with strong technical skills as instructors, possibly part-time, could enhance the quality of VET teaching and its labour-market relevance (Hilpert, 2020[29]). In parallel, both technical and pedagogical skills for teachers and instructors in VET schools should be continuously improved by introducing CPD opportunities.

3.2. Boosting competencies in Albania beyond formal education

3.2.1. Increasing access to and the quality of adult education will be essential for creating a nimble workforce that can adapt to changes in the labour market

Albania should increase participation in adult learning, especially by strengthening incentives for participation. In 2016, only 9.9% of Albanian adults aged 25-64 years participated in some form of formal and/or non-formal education, compared to 43.7% in the EU-28 (Eurostat, 2021[6]). Yet, in 2019, almost half (44.7%) of this age group had low educational attainment (meaning primary education or less), which is double the EU-27 average (21.6%) (European Commission, 2020[25]). Considering that long-term unemployment in Albania was about 64.3% in 2019, increasing participation in adult learning would be particularly important (World Bank/WIIW, 2021[30]). Broad-based collaboration between key stakeholders – including the private sector, trade unions, training centres and international partners – can create a platform to develop incentives for adult participation in training based on labour market needs. As mentioned in Section 3.1.1, Albania could build on the existing skills gaps to identify which types of skills are needed.

Complementary, it would be important to strengthen the provision of training for all skill sets, in all parts of Albania. VET is mainly provided by public vocational training centre. In 2019, only 15 154 persons participated in such training (European Commission, 2020[25]), while the number of long-term unemployed persons stood at about 106 000 in Q2 of 2019 (World Bank/WIIW, 2021[30]). Albania lacks adequate facilities and services to carry out adult learning, especially outside bigger cities. Courses offered in the VTC are mainly intended for persons with low skills. To address gaps in trainings for persons with medium and high skills, Albania is currently developing bylaws to outsource provision of training to private sector providers (European Commission, 2020[25]).

3.2.2. Leveraging on foreign direct investment (FDI) can help boost the competencies of the workforce

Albania should leverage its accumulated FDI to boost local competencies. Since 2007, Albania has attracted considerable FDI: at an average rate of 8.4% of GDP, its annual net FDI inflows over the period have been among the strongest in the region (World Bank, 2021[31]). A significant part of the uptake in investment relates to two large energy projects[6] (35% of all FDI over the past five years). Remaining investments have predominantly been in the non-tradable sector, including financial services (9.5%) and real estate (6.5%). Most export-oriented FDI went to extractive industries (29%), while sectors such as manufacturing and ICT received less than 5% of total FDI over the past five years (Bank of Albania, 2020[32]). Over the past two years, FDI growth has also been sustained by small-scale investments.

To attract more investors, especially those with large spillovers in terms of skills and competencies, it would be important to streamline national and sectoral investment frameworks and strategically target investments that can build national competencies. The overall framework for investment and business conduct in Albania remains complex and hampers attraction of investment, especially in manufacturing. Currently, investment activities are governed by several general laws as well as sectoral laws and regulations,[7] which makes business conduct complex. A new law, drafted in 2019, aims to simplify and unify existing legislation to improve and streamline the current complex investment regime. The Albanian Investment Development Agency (AIDA) plays an important role in developing linkages between local firms and multinational enterprises (MNEs). One of AIDA's core pillars to attract investment has been to focus on strategic investments in key sectors including: energy and mining; transport, electronic communications infrastructure and urban waste; tourism (tourist structures); and agriculture (large agricultural farms) and fisheries (OECD, 2021[11]). Increasing the scope of its strategic investments can potentially attract investors in manufacturing and improve national competencies through linkages.

While foreign investors can bring important skills and competencies, higher skills also act as an incentive for foreign investors; it is thus important to foster development of skills and competencies and showcase them to prospective investors. About 32% of foreign companies report that the education system fails to meet labour market demand (ETF, 2019[33]). The ICT sector is among the fastest growing in Albania and has large potential for private sector investment (OECD, 2021[11]), but difficulties in recruiting staff limit its attractiveness.

3.2.3. Fostering closer linkages with the diaspora can be a source of new competencies

Albania can build national competencies. Some estimates suggest that up to 1.6 million Albanian citizens live abroad – more than half of the total population (ETF, 2021[34]). Based on the OECD DIOC database (OECD, 2016[35]), of about 505 400 persons born in Albania who are living and working in OECD countries, 61.7% are employed in medium and highly qualified professions such as plant and machine operators and assemblers; technicians and associate professionals; professionals; services and sales workers; and craft and related trades workers (Figure 2.18 of Chapter 2). This indicates a great potential for knowledge transfer, particularly as the Albanian diaspora also maintains familial connections as evidenced through the large volumes of remittances. The share of remittances in GDP was 9.6% in 2019, in line with other regional economies (World Bank, 2021[31]).

Albania has in place a solid diaspora policy to mobilise and leverage its human capital potential and their capital. Since November 2019, the Albanian Diaspora Business Chamber, an independent non-profit organisation, attracts and supports investors willing to establish or expand their businesses in Albania. In addition, the National Strategy for Diaspora 2021-2025 (adopted July 2020 by the Council of Ministers) aims to mobilise professionals abroad and attract innovative investments from the diaspora.[8] Albania plans to tap into the diaspora through three policy actions: attracting investments from abroad, putting remittances to productive use, and ensuring knowledge transfer from the diaspora to Albania. Leveraging professional networks among Albania's diaspora is key to implementing these actions. Examples of such initiatives include "Ready for Albania", which invited Albanians living abroad to propose ideas and projects that could contribute to developing the economy. To date, hundreds of ideas have been submitted. The Albanian American Development Fund plans to establish a platform and a short-term fellowship programme to connect highly qualified Albanians to engage in educational transfer. Survey data among the scientific Albanian diaspora show that 88% would be willing and ready to contribute through co-operation with universities and other scientific institutions in Albania (ETF, 2021[34]).

3.3. Indicators to monitor the overall policy progress in Albania

To monitor the policy progress in digital transformation of the education system and other policy priorities in Albania, the OECD suggest a set of key indicators, including values for Albania and benchmark countries (either the OECD or the EU average, based on data availability). Table 3.1 provides the differences between the benchmark value and the value for Albania.

Table 3.1. Indicators to monitor progress in implementing policy in Albania

2018, unless otherwise specified

Indicators	Albania	Benchmark value
Children (aged 3-5) attending a preschool programme (%)	75.1****	81.7****
Mean PISA science score	417	489
Students attaining at least Level 2 proficiency in reading (%)	48	77
Individuals who have basic or above basic digital skills (%)	21*	56*
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	25.8*	15.5****
Teachers having at least a master's degree in advantaged schools (%)	-	47.2
Teachers having at least a master's degree in disadvantaged schools (%)	-	40
Schools where principals agree or strongly agree that an effective online support platform is available (%)	32	54
Public spending on education (% of GDP)	4.0*	4.9
Adult (aged 25-64) participation in education and training, formal (%)	1.7***	5.8***
Adult (aged 25-64) participation in education and training, informal (%)	8.2***	42.7***

Note: *2019, **2017, ***2016, **** 2020. The benchmark values are based on the current OECD averages, except for *Individuals who have basic or above basic digital skills* and for *Adult participation in education and training*, where the benchmark is the EU average.
Source: OECD (2021[36]), PISA 2018 Database, https://www.oecd.org/pisa/data/; World Bank (2021[31]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ILO (2021[37]), *ILOStat* (database), https://ilostat.ilo.org/data/.

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Notes

[1] Due to the outbreak of the COVID-19 pandemic, the foresight workshop was not held in Bosnia and Herzegovina.

[2] The Albanian peer-learning participants, represented the Swiss funded Skills for jobs project/DM Consulting, Polis University, Albanian Producers Association and the Center for Competitive Skills.

[3] The current appraisal for promotion, for example, includes a review of teacher's portfolio or work and a written exam, which does not adequately teacher's competencies (Maghnouj et al., 2020[14]).

[4] Able to beat the odds and achieve high performance levels in PISA.

[5] The key education agencies in Albania include the Quality Assurance Agency in Pre-University Education and the General Directorate for Pre-University Education, Educational Services Centre.

[6] The Trans Adriatic Pipeline (TAP) natural gas network (which links Greece with Italy and other Western European countries) and hydropower plant investments on the Devolli River.

[7] This includes the 1993 Law on Foreign Investment and the 2015 Law on Strategic Investments, as well as a number of sectoral laws and regulations (OECD, 2021[11]).

[8] The National Diaspora Strategy 2021-2025 also aims to reorganise the management of migration flows, reform electoral citizenship to enfranchise Albanian voters abroad, and promote identity, language, culture and art.

4 Boosting education and competencies in Bosnia and Herzegovina

Over the past decades, Bosnia and Herzegovina has made important progress to strengthen domestic competencies. Many education authorities, at entity, canton and district levels, have started to integrate a competency-based approach into their respective curricula. To improve the quality of teaching, Bosnia and Herzegovina established a body to accredit education institutions and programmes for initial teacher education. This chapter puts forward policy priorities to sustain such progress, and to provide the citizens of Bosnia and Herzegovina with the modern labour market and transversal skills needed for economic transformation and civic participation. Much can be achieved through investments in early childhood education and care (ECEC) as a means to strengthen the foundational skills of children. Considering the decentralised governance structure of Bosnia and Herzegovina, more systematic engagement in the policy-making process by all relevant stakeholders would better support alignment of key objectives and activities across different government levels. Collaboration with the private sector should play a key role in this respect.

The Initial Assessment of this Multi-dimensional Review of the Western Balkans identified education and competencies for economic transformation as the top priorities for Bosnia and Herzegovina and for all economies across the region (OECD, 2021[1]). While economic structures vary significantly from one economy to another, finding new sources of productivity growth and engines for future transformation is an urgent task for all the regional economies. Good jobs are scarce and young people continue to leave. Boosting youth and workforce competencies can unlock new opportunities to overcome these trends. The more unfavourable an economy's current wage-to-productivity ratio, the more urgent it becomes to find new and more productive activities to build a strong economy.

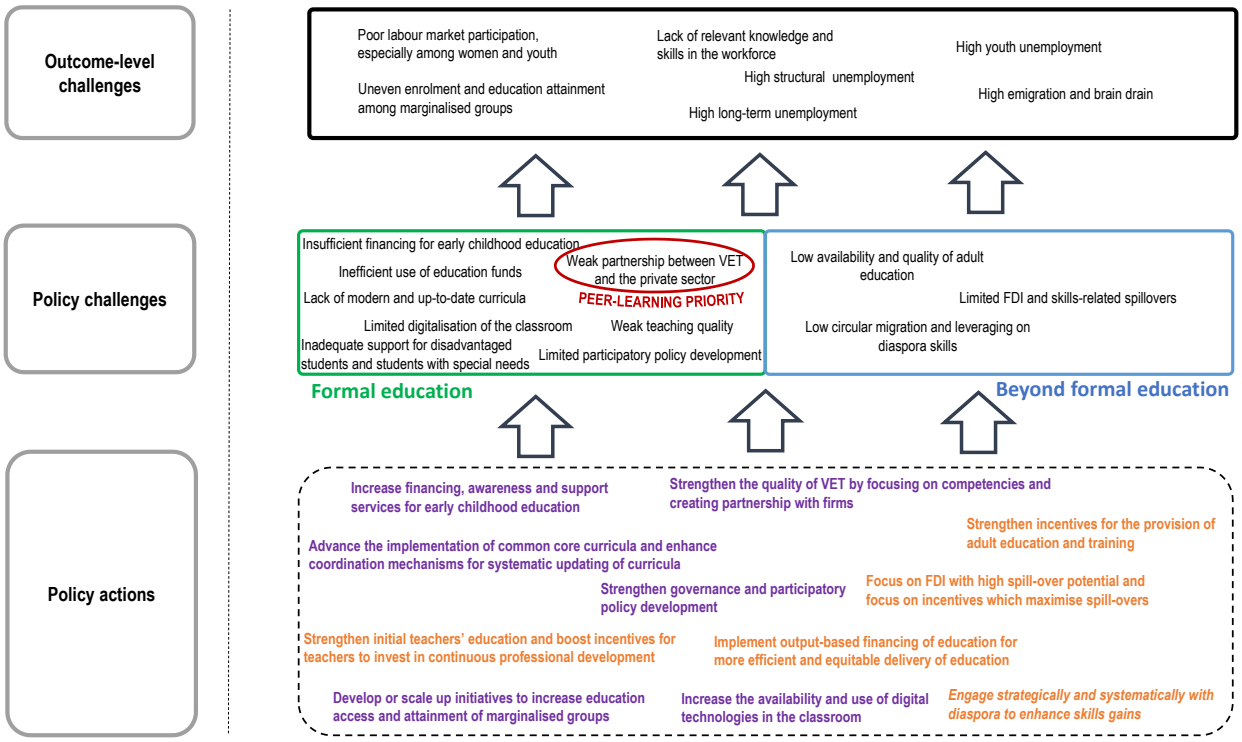
High quality education also tops the list of aspirations for the future in Bosnia and Herzegovina and in the region. Quality education is an essential element of quality of life for all; young people in school; families; those who want opportunities for their own children; those who want to have children in the future; and those who depend on younger generations to shape the future of their societies. Education also matters for civic engagement and respect for diversity and for the rule of law.

This report builds on an extensive peer-learning process with practitioners in the region and expert assessment to provide suggestions for strengthening education and competencies in Bosnia and Herzegovina and in the region. Building on the Governmental Learning Spiral methodology (Blindenbacher and Nashat, 2010[2]), two peer-learning workshops brought together experts and practitioners from across the region and beyond to prioritise among challenges and solutions, develop ideas for action, and learn from each other (Box 2.1 of Chapter 2). The peer-learning workshops on education and competencies served three complementary aims: to identify outcome-level challenges hampering the build-up of competencies; to identify key policy challenges; and to put forward key policy priorities for Bosnia and Herzegovina and for the region (Figure 4.1).

Over the past decade, Bosnia and Herzegovina has taken important steps to boost the quality and relevance of education across all levels. Significant progress was made in ensuring full participation in basic compulsory nine-year education and in making learning more competency-oriented through the introduction of competency-based curricula. Bosnia and Herzegovina's participation (in 2018, for the first time) in the OECD Programme for International Student Assessment (PISA) was also an important step in providing valuable data and benchmarking that can help authorities identify and close existing learning gaps. Nascent efforts have also been made in some entities and cantons to introduce teaching standards and Bosnia and Herzegovina also established a body to accredit higher education institutions and programmes for initial teacher education (ITE). Efforts have also been made to strengthen co-ordination and harmonisation of education policy across the economy by establishing co-ordinating mechanisms and bodies.

To sustain the progress in building key competencies of students and adults, Bosnia and Herzegovina must now tackle a set of outcome-level challenges that remain (Figure 4.1). Student performance on the PISA 2018 assessment was among the lowest in Europe. Employer surveys continuously report significant difficulties in hiring due to skills gaps, ranging from technical to meta-cognitive skills. High unemployment and limited prospects in the labour market, especially among youth, limit incentives to invest in education and skills, and are a "critical push" factor for emigration and brain drain. In fact, Bosnia and Herzegovina has one of the highest emigration rates among the Western Balkan economies. Strengthening the education and competencies of youth and the existing workforce is, therefore, critical for creating sustainable economic prospects and unlocking a virtuous cycle that will boost employment opportunities for all – and thus nurture and retain the talent at home.

Figure 4.1. Strengthening education and competencies in Bosnia and Herzegovina and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Eleven policy actions have great potential to strengthen education and competencies in Bosnia and Herzegovina, with strengthening practical learning through more collaboration with firms being the key peer-learning priority (Figure 4.1).

- Strengthen practical learning through more collaboration with firms (peer-learning priority)
- Increase access to early childhood education and care (ECEC)
- Foster equitable education at all levels
- Systematically engage with stakeholders in the participatory policy-making process for better policies and stronger governance of education
- Make efficient use of education financing
- Update and modernise curricula
- Improve teaching quality
- Employ digital technologies in the classroom
- Increase access to and quality of adult education
- Leverage foreign direct investment to boost skills
- Foster closer linages with diaspora

This chapter is divided into three sections. Sections 4.1 and 4.2 provide policy implications for Bosnia and Herzegovina across the eleven policy actions through a prism of challenges specific to Bosnia and Herzegovina. Section 4.3 provides indicators against which policy progress can be measured in implementing all the policy priorities for Bosnia and Herzegovina. This chapter is complemented by the

regional chapter (Chapter 2) by providing more specific policy options for the eleven policy actions based on international practices that may be applied, albeit to different degrees, also to Bosnia and Herzegovina.

4.1. Improving the quality and relevance of formal education in Bosnia and Herzegovina

4.1.1. Strengthen practical learning through more collaboration with firms

Strengthening practical learning through increased collaboration with firms to provide expert mentorship and collaborate in work-based learning was identified as a key priority for Bosnia and Herzegovina during the peer-learning workshops. Forming strong partnerships, particularly with the private sector, has already been an important strategic priority for Bosnia and Herzegovina, as evidenced by key strategic documents across a range of policy areas including education (Bosnia and Herzegovina, 2021[3]). In practice, systematic and effective engagement between vocational education and training (VET) and the private sector is yet to be achieved. Box 4.1 highlights specific actions and requirements that peer-learning participants see as necessary to strengthen practical learning through more collaboration with firms.

As the most popular education track in Bosnia and Herzegovina, VET needs to be better aligned with labour market needs. With about three-quarters of secondary school students choosing to pursue this path, VET plays a significant role in the overall education system (Agency for Statistics of Bosnia and Herzegovina, 2020[4]). Many VET profiles are outdated, however, and employers complain about serious skill gaps in growing and dynamic sectors of the economy. In 2018, a tracer study of VET graduates found that only 51% of employed VET graduates held jobs related to their education (GIZ, 2018[5]).

The lack of sufficient practical training to prepare VET graduates for the workplace is an obstacle for employers. The VET system in Bosnia and Herzegovina has a small component of practical training through work-based learning (in most cases) organised in school workshops. Co-operation with firms for work-based learning remains limited, making up only 20% of all practical lessons (WBA4WBL, 2021[6]). Consequently, positive cases (such as reported in the Goražde Canton) in which practical knowledge acquired during an in-company internship results in the intention to hire interns after graduation remain very rare (USAID, 2017[7]).

Box 4.1. Strengthening practical learning through more collaboration with firms (peer-learning priority)

Peer-learning participants selected strengthening practical learning within VET through more collaboration with firms as a key priority in building competencies and improving educational outcomes in Bosnia and Herzegovina. Following regional discussions at the peer-learning workshops (Box 2.1 of Chapter 2), participants from Bosnia and Herzegovina – representing the Ministry of Civil Affairs, the Directorate for Economic Planning, the Centre for Education and Research, the Foreign Investors Council, and the Center for Educational Initiatives Step by Step – gathered to identify key policy priorities for Bosnia and Herzegovina.

Great potential exists in Bosnia and Herzegovina to leverage work-based learning; with 44% of businesses interested in offering work-based learning, it has the highest engagement in the region (ETF, 2020[8]). Documentation from VET and company co-operation shows that in-company training requires stronger harmonisation of content (WBA4WBL, 2021[6]). It also notes that the government should improve the capacity of in-company trainers and provide incentives for companies to accommodate students, including establishing a structure for cost-sharing for practical training and

remuneration of trainees (ETF, 2020[8]). Another best practice would include accreditation of companies that can offer apprenticeships (ETF, 2020[8]). To boost practical learning through collaboration with the private sector, peer-learning participants from Bosnia and Herzegovina proposed six actions:

- Support implementation of the current regulatory framework
- Implement work-based learning
- Establish professional orientation in secondary education (already existing in strategic directives for career orientation since 2015)
- Apply best local practices across Bosnia and Herzegovina
- Implement requirements of the EU process
- Support implementation of Riga conclusions across Bosnia and Herzegovina

Creating momentum for implementation of the above actions – sustaining it over the longer term – requires the following conditions:

- First, Bosnia and Herzegovina should harmonise regulatory framework. Bosnia and Herzegovina has a complex vertical and horizontal structure of mandates and responsibilities (see Section 4.1.4). With exception of framework laws, this means that a law adopted at level of one administrative unit may not be valid at another administrative unit, which in the case of awarded qualifications means qualification awarded in one entity may not be accepted in another (UNESCO, 2016[9]).
- Second, government institutions should consider introducing various financial and non-financial incentives to encourage private sector participation in the process. Very often, a flexible VET system willing to listen to the needs of the private sector and demonstrating an ability to provide a competent workforce is an important step in attracting the private sector. Other incentives, such as tax breaks, may also help.
- Third, it would be important to set up mechanisms for collaboration with the private sector and work-based learning. This includes: establishing a framework of formal agreements between schools and companies willing to be involved in work-based learning; ensuring continuous training of educational staff to provide teaching consistent with labour market needs; putting in place financial compensation and insurance for mentors and students who participate in work-based learning; and fostering ongoing co-operation between teachers and mentors to provide feedback to students involved and to ensure continuous build-up of teacher competencies.

Ensuring the impact of the envisaged actions requires strong involvement of diverse stakeholders. The need for a participatory process was also underscored by Riga Conclusions in 2015,[1] which call for stronger collaboration in VET to boost employability and competitiveness (European Commission, 2015[10]). Collaboration with the private sector is integral to ensuring the education system, especially VET, is able to better equip students with competencies needed in the private sector. This can be achieved by implementing relevant curricula and providing practical learning within firms across Bosnia and Herzegovina. To facilitate collaboration with the private sector and create a foundation for implementing the envisaged actions, it requires also involvement of other stakeholders, including: relevant ministries (e.g. of education and entrepreneurship); schools, educational institutions and pedagogical institutes; chambers of commerce and of crafts and trade; businesses; and associations of employers.

1. Ministers from the EU Member States, Candidate Countries, European Economic Area Countries, as well as the European social partners and the European Commission met in Riga on 22 June 2015 to discuss further deepening of European co-operation in Vocational Education and Training (VET).

Source: OECD peer-learning workshops.

Beyond the actions identified above, enhancing funding for VET would be important to improve access to equipment and teaching materials. Spending per student on secondary education in Bosnia and Herzegovina is by far the highest in the region and compares with OECD and EU averages (World Bank, 2021[11]). As most of the financing goes to staff salaries, little funding is available for technology, equipment and other resources. This disproportionally impacts VET institutions, which generally have higher costs in these areas than do general education institutions. In fact, lack of equipment and materials, along with the lack of practical training, is considered the most significant constraint to VET education in Bosnia and Herzegovina (GIZ, 2018[5]). As a result, the VET system still strongly relies on financial support from international donors such as the European Union or the GIZ. International donors have also been instrumental in driving curricula upgrades and modernisation, as well as supporting apprenticeships and work-based learning, which are still relatively limited (GIZ/SDC, 2020[12]).

4.1.2. Increasing access to early childhood education and care is critical for building foundational skills for work and for life

Boosting access to early childhood education and care (ECEC) is a critical challenge in Bosnia and Herzegovina that should be addressed. Only 27.3% of children aged 3-6 years old attend a pre-school facility (in 2020), which is lower than most regional peers and well below the OECD and EU averages of 81.7% and 99.9% (Figure 2.15 of Chapter 2). Younger children are also more strongly impacted by the limited access, while the enrolment rate of 5 year-olds has been steadily increasing from 31% in 2011 to 54% in 2016, and is still increasing. Children from poor and disadvantaged backgrounds are also less likely to participate in ECEC. For example, only 1.5% of Roma children and 2% of the poorest children attend pre-school (UNICEF, 2021[13]).

Bosnia and Herzegovina should consider increasing funding for ECEC, and setting criteria for the most efficient and effective allocation of this financing. The low supply of publicly funded ECEC facilities and services reflects underlying challenges of financing for ECEC: in 2018, ECEC accounted for just 3.1% of total spending on formal education in Bosnia and Herzegovina (Agency for Statistics of Bosnia and Herzegovina, 2020[4]). In the absence of publicly-funded options, the high cost of private preschool education limits the participation, particularly for children from low-income families (Camovic and Hodic, 2017[14]). With primary education budget taking up a lion's share of the total education budget in Bosnia and Herzegovina, scope exists for efficiency gains in primary education spending and reallocation of financing to ECEC. Yet, any potential reallocation needs to be carefully assessed so that the potential reallocation of funding does not affect the primary education, which also requires quality improvements.

Improve the infrastructure for ECEC by targeting in particular rural areas and municipalities with no ECEC facilities. Investments in hard infrastructure can be complemented with additional services focused on the poorest communities. In the main urban areas, high demand results in long waiting lists, while many rural areas do not even have access to any ECEC services (in 30 out of the 143 municipalities there are no preschool programmes) (Branković et al., 2016[15]). Moreover, ECEC enrolment rates in rural areas represent about one-third of the enrolment rates in urban areas, further undermined by higher unemployment, less disposable income and cultural norms regarding childcare (UNDP, 2013[16]; World Bank, 2019[17]).

4.1.3. Fostering equitable education at all levels is essential for boosting the size and quality of the workforce of Bosnia and Herzegovina

Scale up initiatives that target inclusion of economically disadvantaged minorities (such as Roma), rural populations at all levels of education, and persons with special needs. Participation and attainment in education among the Roma population are systematically lower than the rest of the

population. The Roma primary school enrolment rate is roughly two-thirds that of the rest of the population; Roma secondary school attendance is less than 50% (UNICEF, 2020[18]; UNDP, 2012[19]). Roma students also have higher dropout rates compared with non-Roma students, especially among girls. Children from poor and rural backgrounds are less likely to attend secondary school. The largest share of children attending ECEC is those of formally employed parents who live in urban areas (75% of all children going to preschools) (World Bank, 2019[17]). Finally, provision of infrastructure and services needed to support special needs education varies across Bosnia and Herzegovina, depending on the resources and capacities of municipalities and schools, according to peer-learning participants.

4.1.4. Systematically engage with stakeholders in the participatory policy-making process for better policies and stronger governance of education

Systematically engaging all relevant stakeholders in the policy-making process, as a means to strengthen participatory policy development, was also one of the most important priority measures identified by peer-learning participants from Bosnia and Herzegovina. Participatory policy development aims to facilitate inclusion of diverse groups and individuals in the design of policies. Participatory policy development should create an environment in which various stakeholders can define their goals, express their opinions, consider options and come up with a set of recommendations that the government can implement (FAO, 2005[20]).

To ensure the greatest impact from engaging various stakeholders on education policies, it is important to align key objectives and activities across different government levels. First, defining strategic objectives for the education system in line with the expectations of all relevant stakeholders and by co-ordinating the alignment of the Republika Srpska (RS), cantonal in the Federation of Bosnia and Herzegovina (FbiH) and Brčko District BIH level strategic documents under the Conference of Bosnia and Herzegovina Education Ministers. It is also important to strengthen the co-ordination mechanisms for implementing these objectives, to monitor – in a consistent way across all jurisdictions – progress *vis-à-vis* targets, and to evaluate the impacts of education policies and adjust them accordingly. If done correctly, participatory policy development can increase competencies in Bosnia and Herzegovina through: better informed and more equitable policies; strengthened transparency and accountability; strengthened ownership; enhanced capacity to include marginalised groups; and enhanced government capacity (Rietbergen-Mccracken, n.d.[21]).

To ensure the widest possible impact of participatory policy making, it is important to identify and involve diverse stakeholders and to establish effective co-ordination mechanisms. Identification of key stakeholders that should be involved, including the Ministry of Civil Affairs at the state-level, Ministries of Education of RS, cantons in the FbiH, and Brcko district BiH, municipalities in the case of RS, private sector, teachers, parents, NGOs and other actors. In addition, Agency for pre-primary, primary and secondary education should also be involved and given a clear mandate for setting high level, common goals and scaling initiatives. To ensure effective co-ordination, a working group could be established with representatives of the above stakeholders. Ministry of Civil Affairs at the state-level could be the key co-ordinating body.

Streamlining and simplifying complex policy-making processes that characterise the complex education system of Bosnia and Herzegovina can improve participatory policy making. Three different systems come into play across the current education system: in RS, education is governed at the entity level; in the FbiH it is governed at the cantonal level; and in the Brčko District, at the district level. Each of the administrations is responsible for enacting its own education legislation and financing education. FBiH further comprises ten cantons, each with an education ministry. Overall co-ordination of education across Bosnia and Herzegovina, including liaison at international level, is undertaken by the Ministry of Civil Affairs at state level. Three state-wide agencies support the implementation of education policies: a) Agency for the Development of Higher Education and Quality Assurance; b) Agency for pre-

primary, primary and secondary education; and c) Centre for Information and Recognition of Qualifications in Higher Education. Further, a Conference of Ministers of Education provides a dialogue framework on state-wide education affairs with decisions taken by a state-wide Council of Ministers. At present, more than 70 policy documents – including framework laws, strategies, legislation and guidelines – govern education in Bosnia and Herzegovina (ETF, 2020[8]).

Better and more harmonised data collection is also needed to strengthen governance of the education system and participatory policy development. Weak education outcomes also reflect a lack of systematic monitoring and evaluation (M&E) of education policies; in turn, M&E is undermined by the lack of systematic collection and sharing of education-related data at the state level. As a result, education-related statistics are incomplete, inconsistent and spread across jurisdictions without any aggregation – all of which limit the evidence base for policy making. Limited comparable data on learning outcomes, and the absence of a state-wide student assessment system to measure outcomes, hinder regular performance monitoring.

4.1.5. More efficient use of education financing is needed to improve learning outcomes at all levels

Bosnia and Herzegovina should reassess high staffing costs and consider reallocation to improve availability of funds. At 3.9% of GDP, Bosnia and Herzegovina's spending on education is in line with regional peers, albeit lower than advanced economies (Figure 2.13 – Panel A of Chapter 2). Personnel expenditures account for most of these costs: about 90% of all spending is on staff salaries, including large numbers of teachers and non-teaching staff. In fact, Bosnia and Herzegovina has one of the lowest student-to-teacher ratios in the region and beyond (Figure 2.13 – Panel B of Chapter 2). Non-teaching staff costs are also relatively high compared to peers; in primary schools, they account for about one-third of total spending (Agency for Statistics of Bosnia and Herzegovina, 2020[4]). These high personnel costs also limit spending for other important (and deficient) resources such as quality facilities, teaching materials, teacher training and continuous professional development (CPD) (World Bank, 2020[22]). Some of this financing gap is covered by donors, which have played a critical role in financing curricula upgrades, teacher training, provision of adult education and other areas.

Finally, considerable differences in per student spending on education across different administrative units leave a significant scope for increasing the equity of financing – the introduction of per-capita funding formula could be an alternative. Primary education spending per student is about 24% higher in FBiH than in RS, and further differences are also present between cantons within the FBiH. This reflects in large part the decentralised funding of education. As a result, the resources invested in education and the quality of education can vary notably across the economy (World Bank, 2019[17]). Decentralised financing also leaves considerable room for inefficient allocation of resources at the economy level, with negative consequences on educational equity and quality overall.

4.1.6. Updating and modernising curricula to impart relevant knowledge and skills

Given the lack of competencies that are in demand in the labour market, it is important to develop modern curricula that focus on current and future labour market needs. In a recent survey, about 30% of respondents said that skills acquired during their education did not meet the needs of their jobs. In turn, some 58% of firms say the education system does not impart the skills needed in the current labour market (World Bank, 2017[23]).

Bosnia and Herzegovina needs to make more progress in implementing the developed competency-based curricula for primary and secondary education and to develop the institutional mechanisms and processes for systematic upgrading and adaptation of curricula. Over the past two decades, education quality and relevance in Bosnia and Herzegovina has suffered due to the reliance on

outdated curricula across all education levels, but the process of development and implementation of competency-based curricula in Bosnia and Herzegovina has been long (World Bank, 2019[17]). Until today, competencies education authorities have aligned their existing curriculum to competency-based curricula until various degrees (Guthrie et al., 2022[24]).

4.1.7. Improving teaching quality is key for better learning outcomes

ITE needs to be more comprehensive in Bosnia and Herzegovina, with a stronger focus on pedagogical and other teaching skills. Curricula for teachers are designed by the faculties in which the teachers are educated (pedagogical faculties; philosophy, science, and mathematics faculties; art academies), which results in considerable diversity in the curricular content and significant focus on subject knowledge at the expense of teaching competencies such as psychology, pedagogy, didactics, and methodology (PPDM). There are also no programme-specific accreditation criteria to ensure that ITE providers can demonstrate that they are equipping candidates with the skills they need for teaching (Guthrie et al., 2022[24]).

Bosnia and Herzegovina also needs to put a stronger spotlight on teacher in-service training and CPD. Bosnia and Herzegovina has the lowest share of vocational teachers participating in any kind of training, except for CPD in businesses, in which Bosnia and Herzegovina only trails behind Turkey (Table 2.5 of Chapter 2). In-service teacher training is quite limited and largely dependent on the initiative of individual teachers or principals. Donor financing is the main source of funding for such activities. Disaggregated financing, lack of continuity and long-term sustainability remain important concerns with the reliance on this source of financing (World Bank, 2019[17]). VET teachers have limited exposure to the world of work; coupled with the lack of effective CPD, this results in limited updating and/or upgrading of teaching competencies. In 2018, Agency for pre-primary, primary and secondary education developed Guidelines for Development of Standards for the Accreditation of Training Programs for VET Teachers in Bosnia and Herzegovina. These guidelines have yet to be incorporated into legislation in different parts of Bosnia and Herzegovina.

Teacher compensation and career progression ought to be linked to performance. Teacher compensation is based mainly on years of experience, however, rather than performance. This limits incentives for teachers to innovate, to strive to improve practice or to invest in CPD. The limited and inconsistent appraisal of teachers further compounds this challenge. Teacher performance is evaluated mainly by administrators, such as school principals, advisors and/or inspectors from the local pedagogical institute (if such an institution exists and has sufficient evaluation capacity). Moreover, evaluations are not based on common quality standards and, in the instance of a disappointing evaluation, teachers are not provided with sufficient guidance, feedback or support.

4.1.8. Systematically employing digital technologies in the classroom can significantly boost education outcomes

Bosnia and Herzegovina should increase student access to digital technologies in the classroom. Reportedly, among students leaving school, about 32% of them believe that the skills they lack the most are digital skills (Regional Cooperation Council, 2019[25]). According to data from PISA, there are just over 0.3 computers per pupil in Bosnian schools, compared with an average of over 0.8 in OECD countries (OECD, 2020[26]). Internet access is also an issue: while nearly all school computers in OECD countries are connected, in schools in Bosnia and Herzegovina, the share drops to just over 70%. Access to computers in school has been shown to have a statistically significant impact on student performance in Bosnia and Herzegovina (World Bank, 2019[17]).

Addressing digital skills among teachers would be an important step forward. Even in EU countries, only one-quarter or less of students are taught by teachers who feel confident using digital technologies

(World Bank, 2020[27]). While no comparable data are available for Bosnia and Herzegovina, this issue may also be a significant challenge. On a positive note, despite considerable aforementioned challenges in policy co-ordination among the numerous education authorities, co-operation on entrepreneurship and digital competencies is relatively well developed. Stakeholders agreed upon a working document to promote these competencies (GIZ, 2021[28]).

4.2. Boosting competencies in Bosnia and Herzegovina beyond formal education

4.2.1. Increasing access to and the quality of adult education will be essential for creating a nimble workforce that can adapt to changes in the labour market

Flexible training provisions, statuary education and training leave, financial incentives and recognition of previous learning (including informal) are key levers to improve participation in adult learning. In 2017, only 8.7% of adults (aged 25-64 years) participated in some type of formal and/or non-formal education. Of these, only 2.2% participated in formal education or training, while 6.9% received non-formal education (Agency for Statistics of Bosnia and Herzegovina, 2018[29]). The strong focus of the labour market on diplomas and formally obtained qualifications – rather than acquisition of skills – has led to limited recognition of informal training, which represents an important constraint to adult learning. Donor-financed initiatives have been made to boost recognition of informally obtained qualifications in the labour market.

4.2.2. Leveraging foreign direct investment can help to boost the competencies of the workforce

Increased co-ordination efforts among various investment promotion agencies (IPAs) – including data sharing, streamlining of administrative procedures and clarity on investment incentives – can create conditions necessary to attract investors. As a result of institutional and overall challenges related to the fragmented internal market and the business environment, net FDI inflows over the past five years have comprised just 2.3% of GDP, well below most regional and global peers (World Bank, 2021[11]). Investment promotion activities are conducted at both state and entity levels, which creates a complex web of contact points, adds to administrative costs, and limits the resources and capacities of the state-level Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA). While the FIPA is responsible for promoting the overall economy as an attractive investment destination, it is the entity-level IPAs that conduct investor targeting activities, including focusing on specific strategic sectors for investment attraction. Incentives for FDI attraction are predominantly defined at the entity level, though efforts have been made to avoid overlaps and inconsistencies at the economy-wide level. This leads to a complex and confusing system for investors. It also results in limited state oversight regarding how incentives are applied at the entity level. Lack of transparency about the amount of state aid provided to companies further adds to the uncertainty facing investors (OECD, 2021[30]). Uncertainty for investors also prevailed within the four special economic zones (SEZs) in Bosnia and Herzegovina. While investors are granted customs and value-added tax (VAT) exemptions by law, firms were required to claim VAT recovery in front of courts, which caused additional legal costs. As SEZs were created in former heavy industry hubs around existing companies, they were unable to attract large amounts of new investments. Consequently, employment impact was limited; the number of 1 700 jobs created is lower than for SEZs in Serbia and North Macedonia (OECD, 2017[31]).

Co-operation on training between companies and education institutions remains limited but could be further expanded, given the high demand for well-trained, skilled workers. When interviewed in a recent study, German firms located in Bosnia and Herzegovina reported that they were training workers – often in their own training facilities abroad – because they often do not find the skills they are looking for

locally (Jovanović, 2021[32]). Foreign firms are also part of the increased effort to provide work-based learning within the VET system, funded with the help of donors (see Section 4.1.1). The training components they provide are adapted to special knowledge needed in their plants, which gives them opportunity to influence the curriculum of the educational system. Almost all foreign employers voice the complaint, however, that they invest in the training and education of their workers who afterwards decide to leave Bosnia and Herzegovina (Jovanović, 2021[32]).

4.2.1. Fostering closer linkages with the diaspora can also be a source of new competencies

To tap into the diaspora as a potential source of knowledge and investment, it would be important to map the existing diaspora and to foster a proactive approach in creating linkages. According to some estimates, Bosnia and Herzegovina's diaspora could be as large as 2 million people – as much as 53% of the resident population (USAID, 2020[33]). Based on the OECD DIOC database (OECD, 2016[34]), of about 505 000 persons born in Bosnia and Herzegovina now living and working in OECD countries, 61.7% are employed in medium and highly qualified professions such as: plant and machine operators and assemblers; technicians and associate professionals; professionals; services and sales workers; and craft and related trades workers (Figure 2.18 of Chapter 2). They also tend to maintain familial connections to their economies of origin, as evidenced through the large volumes of remittances that flow to Bosnia and Herzegovina every year (11.2% of GDP in 2019) (World Bank, 2021[11]). To date, the diaspora have not played an important role as a source of knowledge and competencies (FAO, 2005[20]).

Better leveraging on knowledge and competencies accumulated abroad requires a comprehensive diaspora policy with strong involvement of Ministry of Human Rights and Refugees at the state-level and other relevant institutions. Implementation and co-ordination of diaspora policy in Bosnia and Herzegovina remain weak at the state level. Responsibility for such policy falls under two different entities. At the state level, the Strategy on Migration and Asylum of Bosnia and Herzegovina and its Action Plan 2016–2020 describe the institutional and policy frameworks that need to be strengthened for stronger ties with the diaspora, including the offering of centralised services and support programmes. Several other programmes were launched to engage in skills transfer and investment. One example is the TOKTEN (Transfer of Knowledge through Expatriate Nationals) scheme, through which experts from the diaspora engage in subsidised, short-term consultancy work in their economies of origin. However, these programmes often failed to establish long-lasting ties with the diaspora and thus led to limited knowledge transfer. Institutional capacity and co-ordination among different ministries should be increased to offer the diaspora opportunity for active engagement in decision making. This would allow the ministries to shape the policy agenda around the diaspora, which could boost their mobilisation (Williams, 2018[35]).

4.3. Indicators to monitor the overall policy progress in Bosnia and Herzegovina

To monitor progress in implementing participatory policy development and other policy priorities in Bosnia and Herzegovina, the OECD suggests a set of key indicators, including values for Bosnia and Herzegovina and benchmark countries (either OECD or EU averages, based on data availability). Table 4.1 provides differences between the benchmark value and value for Bosnia and Herzegovina. As the overall education data in Bosnia and Herzegovina is rather limited, more collaboration and co-ordination among the key stakeholders in the education systems would facilitate international benchmarking (Guthrie et al., 2022[24]).

Table 4.1. Indicators to monitor progress in implementing policy in Bosnia and Herzegovina

2018, unless otherwise specified

Indicators	Bosnia and Herzegovina	Benchmark value
Children (aged 3-5) attending a preschool programme (%)	27.3****	81.7****
Mean PISA science score	398	489
Students attaining at least Level 2 proficiency in reading (%)	46	77
Individuals who have basic or above basic digital skills (%)	24*	56*
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	21.1****	15.5****
Teachers having at least a master's degree in advantaged schools (%)	15.4	47.2
Teachers having at least a master's degree in disadvantaged schools (%)	4.7	40
Schools where principals agree or strongly agree an effective online support platform is available (%)	34	54
Public spending on education (% of GDP)	3.9**	4.9
Adult (aged 25-64) participation in education and training, formal	2.2***	5.8***
Adult(aged 25-64) participation in education and training, informal	6.9***	42.7***

Note: *2019, **2017, ***2016, ****2020. The benchmark values are based on the current OECD averages, except for *Individuals who have basic or above basic digital skills* and for *Adult participation in education and training*, where the benchmark is the EU average.
Source: OECD (2021[36]), PISA 2018 Database, https://www.oecd.org/pisa/data/; World Bank (2021[11]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ILO (2021[37]), *ILOStat* (database), https://ilostat.ilo.org/data/; Eurostat (2020[38]), Database - Skills-related statistics, https://ec.europa.eu/eurostat/web/skills/data/database.

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5 Boosting education and competencies in Kosovo

Over the past decades, Kosovo has taken important steps to boost domestic competencies. Roll-out of competency-based curricula in primary and secondary schools has fostered progress in competency-oriented learning. Participation at all levels has been steadily increasing, especially at the primary level. Education is one of the top priorities in Kosovo, as shown by education spending at 4.6% of GDP, well above the regional average. This chapter puts forward policy priorities to sustain progress in building key competencies of both students and adults. Given its large young population and low labour market participation, boosting domestic competencies can create more job opportunities and strengthen civic participation. Kosovo has solid strategic documents, bylaws and action plans for quality assurance in education. The focus must now be on implementation, which includes strengthening capacities at the local level, increasing the number of quality assurance co-ordinators in schools, and strengthening mechanisms to work with companies, including through work-based learning. The latter can lead also to significant improvements in vocational education and training, an important education stream in Kosovo. Improving teacher training, by improving initial teacher education and providing opportunities for continuous professional development, should be another priority.

The Initial Assessment of this Multi-dimensional Review of the Western Balkans identified education and competencies for economic transformation as the top priorities for Kosovo and for all economies across the region (OECD, 2021[1]). While economic structures vary significantly from one economy to another, finding new sources of productivity growth and engines for future transformation is an urgent task for all the regional economies. Good jobs are scarce and young people continue to leave. Boosting youth and workforce competencies can unlock new opportunities to overcome these trends. The more unfavourable an economy's current wage-to-productivity ratio, the more urgent it becomes to find new and more productive activities to build a strong economy.

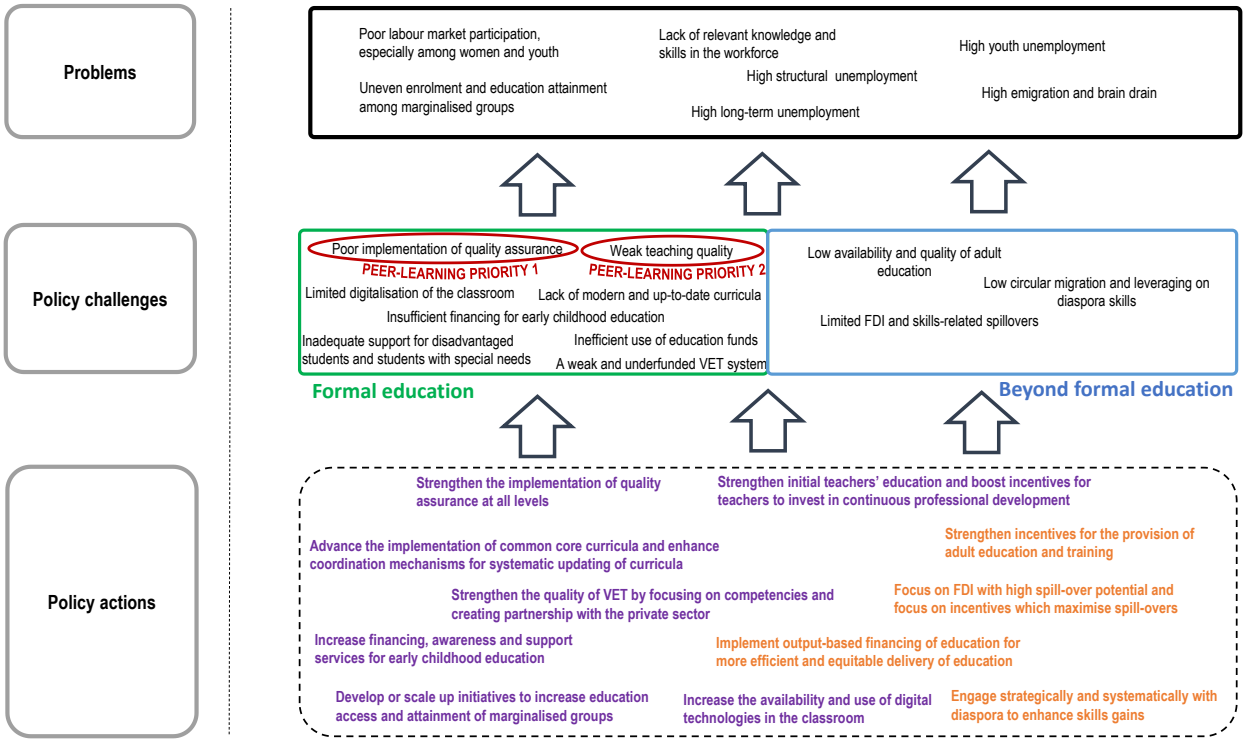
High-quality education also tops the list of aspirations for the future in Kosovo and in the region. Quality education is an essential element of quality of life for all: young people in school, families; those who want opportunities for their own children; those who want to have children in the future; and those who depend on younger generations to shape the future of their societies. Beyond innovation and economic opportunity, education also matters for civic engagement and respect for diversity and for the rule of law. With impressive unanimity, quality education ranked topmost in all four aspirational foresight workshops held in Pristina and in the region as part of the Initial Assessment of this review (OECD, 2021[1]).[1] The foresight workshops gathered a range of participants from various ministries and agencies, the private sector, academia and civil society, who developed vision statements based on narratives of the lives of future citizens.

This report builds on an extensive peer-learning process with practitioners in the region and expert assessment to provide suggestions for strengthening education and competencies in Kosovo and in the region. Building on the Governmental Learning Spiral methodology (Blindenbacher and Nashat, 2010[2]), two peer-learning workshops brought together experts and practitioners from across the region and beyond to prioritise among challenges and solutions, develop ideas for action, and learn from each other (Box 2.1 of Chapter 2). The peer-learning workshops on education and competencies served three complementary aims: to identify of outcome-level challenges hampering the build-up of competencies; to identify key policy challenges; and to put forward key policy priorities for Kosovo and for the region (Figure 5.1). The report comes at an opportune moment: as Kosovo is preparing its new education strategy, the report may serve to provide direct inputs.

Over the past decade, Kosovo has taken important steps to boost the quality and relevance of education across all levels. Progress has been made in fostering more competency-oriented learning through the introduction of competency-based curricula. New curricula that focus on competencies and learning outcomes are being rolled out in primary and secondary schools. Kosovo's Education Strategic Plan identifies critical priorities for education reform. Significant progress has been achieved in increasing education participation at all levels. With donor help, efforts have been made to improve data collection and monitoring of education policies. An assessment toolkit for evaluating teacher performance has been developed along with a framework for monitoring and evaluating the implementation of continuous professional development (CPD) programmes for teachers.

To sustain the progress in building key competencies of student and adults, Kosovo must now tackle a set of problems that remain (Figure 5.1). Performance of Kosovar students on the OECD Programme for International Student Assessment (PISA) in 2018 was among the lowest in Europe. Employer surveys continuously point to significant difficulties in hiring due to skills gaps ranging from technical to meta-cognitive skills. High unemployment and limited prospects in the labour market, especially among youth, limit incentives for investment in education and skills. They are also a critical push factor for emigration and brain drain. In fact, Kosovo has one of the highest emigration rates among peer economies. Strengthening the education and competencies of both youth and the existing workforce is thus critical for creating sustainable economic prospects and unlocking a virtuous cycle that will boost employment opportunities for all, thereby helping to nurture talent and retain it within the economy (OECD, 2021[1]).

Figure 5.1. Strengthening education and competencies in Kosovo and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Eleven priority actions have great potential to strengthen education and competencies in Kosovo, with the implementation of quality assurance and training of teachers being two key peer-learning priorities (Figure 5.1):

- Strengthen the implementation of quality assurance at all levels (peer-learning priority 1)
- Improve teacher training for knowledge transfer (peer-learning priority 2)
- Increasing the access to early childhood education
- Foster equitable education at all levels
- Make efficient use of education financing
- Update and modernise curricula
- Improve the quality and relevance of vocational education and training (VET)
- Employ digital technologies in the classroom.
- Increase access to and quality of adult education
- Leverage foreign direct investment (FDI) to boost skills
- Foster closer linkages with diaspora

This chapter is divided into three sections. Sections 5.1 and 5.2 provide policy implications across the eleven policy actions through a prism of challenges specific to Kosovo. Section 5.3 provides indicators against which progress in implementing all the policy priorities can be measured. This chapter is complemented by the regional chapter (Chapter 2) by providing more specific policy options for the key policy actions based on international practices that may be applied, albeit to different degrees, also to Kosovo.

5.1. Improving the quality and relevance of formal education in Kosovo

5.1.1. Strengthen the implementation of quality assurance at all levels through better implementation of Kosovo's key strategic documents and involvement of various stakeholders

To improve quality, equity and efficiency of education in Kosovo, peer-learning participants selected quality assurance as an overarching priority. Based on the EU definition, quality assurance encompasses "school self-evaluation, external evaluation (including inspection), evaluation of teachers and school leaders, and student assessments" (European Commisson, 2021[3]). To strengthen implementation of quality assurance in Kosovo, peer-learning participants from Kosovo put forward specific objectives and milestones that the upcoming education strategy could build on (Box 5.1).

Kosovo has strategic documents, bylaws and action plans for quality assurance; the focus must now be on implementation. Key framework documents include the Kosovo Education Strategy for Pre-University Education, the Strategy for Quality Assurance on Pre-University Education, the National Qualification Framework and the Strategy for Teacher's Development. Most of the strategies are accompanied by action plans and various bylaws. Peer-learning participants pointed out, however, that the current quality assurance framework is characterised by six shortcomings: weak capacities at the local levels; poor teaching capacities; low numbers of quality assurance co-ordinators in schools; limited involvement of parents in quality assurance; weak capacities of education inspectorates; and lack mechanisms to work with companies, especially when it comes to work-based learning. All of these challenges affect implementation of quality assurance.

Clarity in assigning responsibilities among levels of government remains a challenge. Existing primary legislation is not always fully transposed into secondary legislation and policies. In critical areas, such as quality assurance, lack of clarity on how relative responsibilities are divided between the Education Inspectorate and municipalities has been a major drag on progress in strengthening quality monitoring. In certain municipalities, ethnic divisions further undermine co-ordination and implementation (World Bank, 2015[4]; Aliu, 2019[5]).

Capacity and resources at the local level are especially important, given Kosovo's decentralised education system. Directorates for Municipal Education, to which responsibility was decentralised more than a decade ago, and schools need more capacities and resources to implement quality assurance processes, such as school self-evaluation, teacher and school leader evaluation and student assessments (Aliu, 2019[5]). Many school-level quality co-ordinators reportedly lack a clear understanding of their roles, and not all carry out their responsibilities (Thaçi, Rraci and Bajrami, 2018[6]).

Systematic monitoring and evaluation remains to be improved. Some progress has been made (with the support of donors) to modernise the integrated education management information system (EMIS) with the aim of improving the collection and use of data in education policy making. Wider implementation is still needed (Aliu, 2019[5]).

Effective stakeholder engagement is critical for policy design and implementation. Forming strong partnerships, particularly with the private sector, has been an important strategic priority for Kosovo as evidenced by key strategic documents across a range of policy areas including education (Government of Kosovo, 2021[7]). In practice, however, systematic and effective engagement with the private sector and other relevant stakeholders (academia, civil society, and others) is yet to be achieved (ETF, 2017[8]). This is a cross-cutting challenge that affects all areas of education policy design from enrolment to curricula upgrades, CPD for teachers, adult learning and others. In this context, the peer-learning participants from Kosovo emphasised the importance of working with the private sector to improve work-based learning, including by strengthening the company evaluation system of students and by improving collaboration between teachers and in-company mentors.

Box 5.1. Strengthening implementation of quality assurance as an overarching policy priority

Peer-learning participants selected quality assurance as the key overarching priority in building competencies and improving educational outcomes in Kosovo. Following the regional discussions in the peer-learning workshops (Box 2.1 of Chapter 2), participants from Kosovo – representing the Prime Minister's Office, the Ministry of Education and Science, the University of Pristina, and the Kosovo Investment and Enterprise Support Agency – gathered to identify key objectives and measures relevant for implementing quality assurance in Kosovo.

Objectives	Measures
• Build effective mechanisms for quality assurance at the central and local level • Advance school development strategy at school and municipal level • Increase capacities for quality assurance for all education levels • Increase knowledge of parents on the importance of quality assurance • Ensure implementation of quality assurance mechanism as stated by the National Qualification Framework	• Strengthen school and municipality bodies to perform their functions related to quality assurance • Application of management cycle in quality assurance including planning, developing, performing, and reviewing • Ensure effective use of data to monitor education for quality assurance • Increase capacities and knowledge of inspectorate to monitor quality assurance • Increase trainings for quality assurance co-ordinators in schools • Involve parents in quality assurance, including through parents councils

Source: OECD peer-learning workshops.

5.1.2. Improving teacher training

Pear-learning participants from Kosovo selected teacher training as a key peer-learning priority to improve and boost knowledge transfer. Teachers and educators should be able not only to convey relevant knowledge, but also possess pedagogical skills, creativity, empathy and other relevant skills to support and guide students on their educational journey (Schleicher, 2015[9]). The best-performing education systems in the world are able to attract individuals of high ability into the teaching profession and effectively prepare, motivate and develop those individuals throughout their teaching career. Considering the evolving economic trends and changing needs for competencies, teachers should be able to acquire high quality initial teacher education (ITE) and have an opportunity for regular CPD.

ITE needs to have a stronger focus on skills. In Kosovo (as in other Western Balkan economies), ITE has traditionally had a strong focus on content knowledge at the expense of other critical skills, such as pedagogy, psychology, methodology and other areas. Teachers also tend to focus on traditional pedagogy with a strong emphasis on lecturing and memorisation of content. Research shows this approach tends to be poorly suited for developing the so-called "21st century competencies" including creativity, critical thinking, collaborative problem solving and communication (Jacobs and Toh-Heng, 2013[10]). Such teaching practices are also not conducive to personalised learning, which has an impact on the inclusiveness of education (OECD, 2012[11]). Recent reforms in Kosovo have focused on improving the quality of ITE. Some reforms include: adjusting programmes across all institutions that train teachers (pedagogical faculties as well as others); strengthening quality assurance in all institutions that educate teachers; introducing one-year, pre-service training for teachers trained in faculties other than the pedagogical faculty; and developing curricula for pre-service teacher training (European Commission, 2018[12]).

More financing is needed for teacher training. Currently, in-service teacher training is quite limited. In-service training providers lack capacity and resources; to date, no major efforts have been made to improve this situation. As a result, donor financing is critical to providing these training activities. Reliance on this source of funds, however, remains an important concern in terms of disaggregated financing, lack of continuity and uncertain long-term sustainability.

Boosting the attractiveness of the teaching profession remains an important challenge that Kosovo should address. On the one hand, teacher salaries have increased considerably over the past decade, from an average gross monthly salary of EUR 240 in 2010 to EUR 430 for 2016 (Aliu, 2019[5]). Despite the increases to EUR 466 for primary school teachers and EUR 515 for high school teachers (as a result of strikes in 2019) (Observatoria Balcani e Caucaso Transeuropa, 2019[13]), salaries remain below the average gross salary of EUR 600 in 2019 (World Bank/WIIW, 2021[14]). Teacher compensation is not linked to performance, which limits the incentives for highly capable people to enter the profession and for existing teachers to invest in CPD (OECD, 2020[15]). Recruitment and promotion of teachers remains (at times) politicised, not merit-based. Interviews conducted as part of this MDR revealed that the governance and political affiliation of municipal education directors can bias the selection of candidates (OECD, 2021[1]). Measures have been taken to limit such practices. In an attempt to de-politicise the process, for example, the hiring of teachers has been decentralised to school boards rather than municipal education directorates (USAID, 2017[16]).

Addressing the limitations in teacher appraisal is another important policy lever to improve teaching quality and encourage the uptake of trainings. In VET schools, for example, monitoring of teacher performance is conducted by principals and managers only – i.e. with no input from students or mentors. At present, there is little or no follow-up to the performance appraisal results (ETF, 2018[17]). Recent reforms include efforts to harmonise and strengthen the quality of teacher performance measurement across all schools, including by developing an assessment toolkit for performance evaluation and a framework for monitoring and evaluating the implementation of CPD programmes (European Commission, 2018[12]). The extent to which such tools will be systematically implemented and used to inform policy making on improving teaching quality – as well as to boost incentives for teachers to enter or invest in this profession – remains to be seen.

To support implementation of the above suggestions, peer-learning participants from Kosovo proposed several actions, milestones and activities (Box 5.2). The proposed actions, milestones and activities may be applied to different levels of education and to different stages of teachers' education and training, including during ITE and through CPD. The proposed suggestions could be considered as an integral part of the upcoming education strategy in Kosovo.

Box 5.2. Strengthen knowledge transfer through better teacher training (peer-learning priority)

Actions	Milestones and indicators	Activities
Objective testing of teacher competencies to determine needs	• Number of teachers in Kosovo tested by an accredited body	• Prepare briefing and information papers to inform the political level about the impact of actions and secure their support and funding • Hold roundtables with all heads of municipal education directorates, schools (e.g. VET institution directors) and other stakeholders • Create focus groups with different stakeholders • Ensure involvement of quality assurance co-ordinators • Ensure involvement of different academic institutions, business associations and other stakeholders in training of trainers • Create a knowledge management system by involving stakeholders from the industry to set up an IT system
Self-assessment of teachers	• Questionnaires on training needs (accounting for demographic variables, age, tenure, grades taught and other variables)	
Overall assessment of teacher training with stakeholder involvement	• Number of in-service trainings	
Training of trainers	• Having at least 5 new programmes based on teacher needs • Trainers trained (200 in 2 years)	
Development of curricula based on best practices	• Curriculum revision to be finished by 2021 • Develop additional curricula for new programmes (5-6 over 3 years, based on expressed needs) • Develop new adult education programmes (5 programmes over 2-3 years)	
Establishment of a knowledge management system (e.g. online platform)	• Establish online platform that gathers information • Train 20 officials in municipality-level education directorates • Train 10 inspectors (over 2 years)	

Achieving the desired results will require both diverse partners and conditions conducive for the envisaged activities. The peer-learning participants from Kosovo emphasised the need for the following requirements:

- Adding a clause in teacher contracts to make training compulsory (certificate required)
- Applying for accreditation and/or licensing of training in the relevant agency
- Appointing a programme co-ordinator
- Setting up exams for trainees
- Ensuring adequate budgeting by the Ministry of Education and the Ministry of Finance
- Including teacher training in the new education strategy 2021-2025

Source: OECD peer-learning workshops.

5.1.3. Increasing access to early childhood education and care (ECEC) is critical for building foundational skills for work and for life

Kosovo needs to make significant progress in increasing access to ECEC, especially in rural areas. About 37.5% of Kosovar children aged 3-5 years attended a preschool facility, which is lower than most regional peers and far below OECD (81.7%) and EU (99.9%) averages (Figure 2.15 of Chapter 2). Limited availability of publicly financed ECEC is the main constraint to participation. Kosovo spends just 4.6% of its education budget on ECEC (UNICEF, 2021[18]). As a result, there are only 43 public preschools in the entire economy, representing about one-third of all licensed kindergartens (UNICEF, 2020[19]). With 90% of all preschools located in urban areas, access is particularly limited in rural areas (Volontari Nel Mondo RTM, 2021[20]). At present, 11 municipalities lack even a single preschool institution (Gjelaj, 2019[21]). In

the absence of publicly funded options, the high cost of private facilities limits participation in preschool education, particularly for children from low-income families (UNICEF, 2021[18]). Limited awareness about the benefits of ECEC and social norms regarding childcare also contribute to low enrolment, particularly in rural areas and among families from disadvantaged socio-economic backgrounds (Gjelaj, 2019[21]).

5.1.4. Fostering equitable education at all levels is essential for boosting the size and quality of the Kosovar workforce

In Kosovo, education access and attainment need to be improved for minorities, including Roma, Ashkali and Egyptian, low-income households children living in remote rural areas and children with special needs. Children from the Roma, Ashkali and Egyptian communities are particularly impacted by lower access to education. While the differences in attendance rates between the overall population and the three minority groups are not very high at the primary level (96.1% versus 84.1%), they are rather high at the secondary level (86.8% versus 31%) (Kosovo Agency of Statistics and UNICEF, 2020[22]). Across all communities, children from poor households are less likely to attend school than peers from non-poor households. The gap is particularly wide at the tertiary education level, with non-enrolment among poor students aged 16-20 being over 30-40% compared with about 25% for the entire cohort (World Bank, 2017[23]).

Strengthening the governance and co-ordination of education policy is needed to improve the efficiency and equity of education delivery across Kosovo. Roughly 10% of upper secondary school students do not complete their studies. This impacts female students more than male students: in 2017, 13.1% of female students left secondary school early compared to 11.4% of male students. While many VET graduates continue their studies in university, completion rates are even lower (ETF, 2019[24]). Once out of school, even graduates have limited options for reskilling or upskilling (see Section 5.2.1).

5.1.5. More resources and more efficient use of education financing is needed to improve learning outcomes at all levels

Limited resources hamper the quality of education in Kosovo. At 4.6% of GDP, Kosovo's spending on education is well above average. Given the economy's significant youth population, however, resources per student are limited (Figures 2.13 and 2.14 of Chapter 2).[2] As a result, schools are often overcrowded. Many primary schools operate in two or even three shifts, limiting overall teaching time and the scope for extracurricular activities. This is particularly true in urban areas, which have seen a significant population influx in recent years. Many primary and secondary school buildings need significant renovation: the Kosovo Education Strategic Plan (2017-2021) identified 250 schools in need of renovation and estimated the need for 25 new schools to meet demand in urban areas (Government of Kosovo, 2016[25]). Limited financing for teaching materials and teacher training also have significant negative implications for the quality of learning across all levels of education (European Commission, 2014[26]).

Improving efficiencies in the spending of scarce education funds can improve learning outcomes in Kosovo. Financing for pre-university education remains based on inputs (teaching hours, teaching staff availability, class sizes and other factors) rather than on the number of students or labour market needs. Beyond the aforementioned issue of overcrowding, this has also resulted in, for example, a VET system with many obsolete profiles and poor alignment in terms of the relative number of students across various profiles with actual labour market demands (ETF, 2019[24]).

Donor funding can support education but cannot replace a stable fiscal base for the sector. Donors have played a critical role in financing efforts in Kosovo, including curriculum upgrades, teacher training, purchase of school equipment and training materials, and provision of adult education. Such support remains relatively limited and, unless scaled up and applied across the entire education system, it cannot provide significant and long-term impact.

5.1.6. Updating and modernising curricula to impart relevant knowledge and skills

Implementation bottlenecks in curricula upgrades, in both primary and secondary education, need to be resolved. Curricular reform in Kosovo began in 2009 but rollout across municipalities and schools is still ongoing. The new curriculum framework focuses on learning outcomes and competencies that are relevant and in line with both labour market needs and socio-economic and technological developments. The impact of the new curriculum has been relatively limited due to the slow pace of implementation, which began in 2013 and is still incomplete.

Closing the gap between the competency-based curriculum and teaching practice. Kosovo adopted a competency-based curriculum about ten years ago, which became mandatory as of 2018. To date, implementation has been lacking and teachers have been resistant to implement it. This relates to insufficient training (only about 40% of teachers were trained to implement the new curriculum), lack of up-to-date textbooks and insufficient science staff (Aliu, 2019[5]). These challenges, in turn, reflect underlying financing constraints as well as limited capacities in other areas within the education system, such as strategic orientation and planning (Aliu, 2019[5]).

5.1.7. Improving the quality and relevance of VET is necessary to build a qualified workforce

VET needs to be modernised and better aligned with labour market needs. VET is an important branch of the education system in Kosovo, with around half of pupils in upper secondary education choosing this track (Kosovo Agency of Statistics, 2020[27]). However, VET enrolment profiles are not necessarily well aligned with labour market needs: an estimated 47% of VET students attend programmes for which labour market demand is very limited (Kosovo Education and Employment Network, 2019[28]). In turn, outdated curricula and profiles do not prepare students for the world of work. Curricula in Kosovo's VET schools have traditionally focused on subject and content knowledge, rather than skills. In combination with low teaching quality and lack of opportunity for practical, work-based learning, this has resulted in graduates being ill-prepared for the job market (ETF, 2019[24]).

Significant scope exists to improve the quality of VET teaching through ITE, practical training, and collaboration with private sector employers in relevant fields. Teachers in Kosovo tend to have higher formal qualifications than their peers in neighbouring economies (Figure 2.7 of Chapter 2). In a recent survey conducted by the European Training Foundation (ETF), 74% of VET teachers reported having obtained a Master's degree or equivalent, 12% having a Bachelor's degree and 1% having a PhD. Across all respondents, 65% stated having studied (in their formal education) the subjects they currently teach. In contrast, only 35% of VET teachers have completed ITE while 30% have neither completed ITE nor had teacher training. According to the same survey, only about half of VET teachers have regular and direct interactions with employers in their field (ETF, 2018[17]). Kosovo trails behind its regional peers when it comes to VET teachers pursuing CPD at businesses (Table 2.5 of Chapter 2). In terms of numbers, teacher-student ratios have improved in recent years but more staff are needed to handle critical tasks such as career orientation and quality management (Government of Kosovo, 2016[25])

Teaching quality can also be improved through investments in modern equipment and teaching materials as well as increased access to work-based learning. With 90% of Kosovo's VET budget going to personnel salaries, limited funding is available for equipment and learning materials (ALLED2, 2020[29]). Respondents in the ETF survey noted – in nearly 50% of VET schools – shortages or inadequacy of instructional materials and digital and other equipment (ETF, 2018[17]). The evaluation report on implementation of the Education Strategic Plan found that adequate teaching and learning materials are available for only 24 of 135 programmes (Kosovo Education and Employment Network, 2019[28]). Limited opportunity for work-based learning through apprenticeships is another major challenge. This may reflect

limited capacities both in VET schools to create those linkages but also limited capacities of local companies to provide placements for training (European Commission, 2019[30]).

5.1.8. Systematically employing digital technologies in the classroom can significantly boost education outcomes

Kosovo should improve access to digital technologies in the classroom. According to data from PISA, there are just over 0.1 computers per pupil in Kosovar schools, compared with averages of nearly 0.3 for the Western Balkans and over 0.8 in OECD countries (Figure 2.10 – Panel A of Chapter 2). Moreover, existing equipment suffers from poor maintenance. Internet access is also an issue: while nearly all school computers in OECD countries are connected to the internet, the figure for Kosovo is just over 40% (Figure 2.10 – Panel B of Chapter 2).

Weak digital skills among teachers are a major challenge that should also be considered when addressing digital skills. Although no comparable data are available for Kosovo, this is a significant challenge as confirmed by the elaboration of critical challenges in the Kosovo Education Strategic Plan 2017-2021 (Government of Kosovo, 2016[25]). Even in the EU, only one quarter or less of students are taught by teachers who feel confident using digital technology (World Bank, 2020[31]).

5.2. Boosting competencies in Kosovo beyond formal education

5.2.1. Increasing access to and the quality of adult education will be essential for creating a nimble workforce that can adapt to changes in the labour market

Flexible training provisions, statuary education and training leave, financial incentives and recognition of previous learning, and building capacities of training providers are key levers to improve participation in adult learning. In 2017, only about 4% of adults in Kosovo participated in any kind of education or training (Figure 2.16 of Chapter 2). Meanwhile, measures for upskilling and reskilling are limited to a few active labour market measures and donor initiatives (European Commission, 2019[30]). Adult education is provided by the VET schools, eight vocational training centres (VTCs) and six mobile training units. VTCs offer free, short-term courses (up to six months) that are modular and competency-based as part of non-formal education. Programmes at VET schools offer fee-based, level 4 qualifications that are classified as non-formal education for job seekers registered in employment offices, which lead to the National Qualification Framework (NQF) (Employment Agency of Kosovo, 2021[32]). None of the public VET providers offers tailor-made programmes for the private sector or industry. Capacities for adult training at the VCTs are limited and participant numbers are small; typically, the courses are short in duration and often provided at basic levels. Private VET schools offer fee-based, non-formal training programmes of up to one year, which usually include level 4 and 5 qualifications (Ministry of Education, Science and Technology, 2021[33]).

5.2.2. Leveraging on foreign direct investment (FDI) can help boost the competencies of the workforce

Kosovo can benefit from a more strategic and targeted approach to attracting FDI. Compared with the other economies in the region, Kosovo has attracted lower levels of FDI in recent years; the 3.8% of GDP reported in 2019 is slightly above an average 3.5% in the past ten years. This is similar to North Macedonia and higher only than Bosnia and Herzegovina (1.9%). (World Bank, 2021[34]). Even though Kosovo has a strategy and institutional structure for investment attraction, insufficient resources, lack of focus and inadequate inter-institutional co-ordination hamper implementation of this strategy. The Kosovo

Investment and Enterprise Support Agency (KIESA) has been bestowed an ambitious mandate that includes investment and export promotion as well as support for small- and medium-sized enterprises (SMEs) and management of the economy's special economic zones. At present, the agency lacks the capacity and resources to execute this broad mandate and does not have a clear investor or sector targeting strategy and action plan. KIESA reports directly to the National Council for Economic Development (NCED), chaired by the Prime Minister, which has the main objective of co-ordinating the activities of state institutions to eliminate barriers to doing business in Kosovo. However, the Council does not meet regularly and other inter-agency/ inter-ministerial co-ordination mechanisms are either weak or non-existent. This lack of strategic approach and resources, coupled with weak inter-institutional co-ordination, also negatively impacts aftercare services for investors, which are also in the remit of KIESA (OECD, 2021[35]).

Co-operation on training between foreign companies and education institutions exists but could be expanded given the high demand for well-trained, skilled workers. In the current labour market, foreign firms often have to train new employees to meet the required competencies of their positions before they are able to assume their roles (Hapçiu, 2017[36]). Initiatives to increase work-based learning components have been introduced in VET schools; in most cases, they are donor-driven. With the support of German development agency (GIZ), 34 professional schools collaborate with foreign and domestic companies on skills required by the companies (Jovanović, 2021[37]).

5.2.3. Fostering closer linkages with the diaspora can be a source of new competencies

To tap into diaspora as a potential source of knowledge and investment, it would be important to map the existing diaspora and foster a proactive approach in creating linkages. According to some estimates, Kosovo's diaspora could be as large as 700 000 people – as much as 40% of the resident population (UNDP, 2014[38]). Based on the OECD DIOC database (OECD, 2016[39]), of about 167 000 persons born in Kosovo and living in OECD countries, 61.3% work in medium and highly qualified professions such as: plant and machine operators and assemblers; technicians and associate professionals; professionals; services and sales workers; and craft and related trades workers (Figure 2.18 of Chapter 2). They tend to maintain familial connections with Kosovo, visible through the large volume of remittances that flow to Kosovo every year. With remittances equalling 18.9% of GDP in 2020, Kosovo is among the 15 highest recipient countries globally (World Bank, 2021[34]; Williams, 2018[40]).

Better leveraging of knowledge and competencies accumulated abroad requires a comprehensive and central diaspora policy that covers the entire economy. Implementation and co-ordination of diaspora policy in Kosovo remains weak at the economy-wide level. Since 2011, Kosovo has a Ministry of Diaspora, in charge of investment and involvement of the diaspora. The main policy document, Strategy for Diaspora 2014-2017, and the work of the ministry have not yet led to the passing of direct policies. Rather, a number of individual activities have been implemented throughout the economy such as: business fairs and conferences with the diaspora; tax and non-tax incentives on imports; and a digital network to map the global diaspora and their motivations to emigrate. Plans for future activities exist but have not yet been implemented. The National Development Strategy envisages a database through which diaspora members can be contacted to participate in subsidised, short-term work as experts or students in companies and establishment of a TOKTEN (Transfer of Knowledge through Expatriate Nationals) scheme subsidise experts consulting in Kosovo. Kosovo is also be part of the Expert Return Programme of the German government, which enables short-term engagement of diaspora experts. To capture the full value of individual schemes, they need to be embedded in an effective and comprehensive diaspora policy that extends beyond short-term engagement (Williams, 2018[40]).

5.3. Indicators to monitor the overall policy progress in Kosovo

To monitor policy progress in implementing teacher training and other policy priorities in Kosovo, the OECD suggests a set of key indicators, including values for Kosovo and benchmark countries (either the OECD or the EU average, based on data availability). Table 5.1 provides differences between the benchmark value and the value for Kosovo.

Table 5.1. Indicators to monitor progress in implementing policy in Kosovo

2018, unless otherwise specified

Indicators	Kosovo	Benchmark value
Children (aged 3-5) attending a preschool programme (%)	13.9	81.7****
Mean PISA science score	365	489
Students attaining at least Level 2 proficiency in reading (%)	21	77
Individuals who have basic or above basic digital skills (%)	28	56*
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	33.7****	15.5****
Teachers having at least a master's degree in advantaged schools (%)	36.5	47.2
Teachers having at least a master's degree in disadvantaged schools (%)	52.5	40
Schools where principals agree or strongly agree that an effective online support platform is available (%)	22	54
Public spending on education (% of GDP)	4.6****	4.9
Adult (aged 25-64) participation in education and training, formal	-	5.8***
Adult (aged 25-64) participation in education and training, informal	-	42.7***

Note: *2019, **2017, ***2016, ****2020. The benchmark values are based on the current OECD averages, except for *Individuals who have basic or above basic digital skills* and for *Adult participation in education and training*, where the benchmark is based on the EU average.
Source: OECD (2021[41]), PISA 2018 Database, ; World Bank (2021[34]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; UNICEF (2021[18]), Early childhood development – Kosovo, ; ILO (2021[42]), *ILOStat* (database), https://ilostat.ilo.org/data/; Eurostat (2020[43]), Database - Skills-related statistics, https://ec.europa.eu/eurostat/web/skills/data/database.

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Notes

[1] Due to the outbreak of the COVID-19 pandemic, the foresight workshop was not held in Bosnia and Herzegovina.

[2] Currently, about one-quarter of Kosovo's population (24%) is aged 0-14 years, significantly higher than in the neighbouring economies of Albania (15.4%), Bosnia and Herzegovina (13.0%), Montenegro (18.1%), North Macedonia (16.2%) and Serbia (14.1%) (CIA, 2021[44]).

6 Boosting education and competencies in North Macedonia

North Macedonia has made great strides toward boosting domestic competencies. Significant progress has been made in ensuring full participation in basic compulsory schooling and in introducing competency-based curricula to make learning more competency-oriented. This chapter puts forward policy priorities to further build competencies among students and adults. Attaining excellence in its vocational education and training (VET) should be key for North Macedonia to boost competencies. Despite a large network of VET institutions, current VET is characterised by poor educational outcomes. Establishing major regional VET centres can improve overall quality, including by providing VET students with better access to technical equipment. This will require buy-in from municipalities, which have traditionally been keen to have VET institutions within their constituencies, and strong collaboration with the private sector. To further boost the size and quality of the workforce in North Macedonia, it is also important to scale up initiatives that target disadvantaged students, minorities and students from rural areas at all levels of education. By strengthening access to adult training opportunities and better tapping into the knowledge of foreign investors, North Macedonia could substantially boost the skills of adults and enterprises.

The Initial Assessment of this Multi-dimensional Review of the Western Balkans identified education and competencies for economic transformation as the top priority for North Macedonia and for all economies across the region (OECD, 2021[1]). While economic structures vary significantly from one economy to another, finding new sources of productivity growth and engines for future transformation is an urgent task for all the regional economies. Good jobs are scarce and young people continue to leave. Boosting youth and workforce competencies can unlock new opportunities to overcome these trends. The more unfavourable an economy's current wage-to-productivity ratio, the more urgent it becomes to find new and more productive activities to build a strong economy.

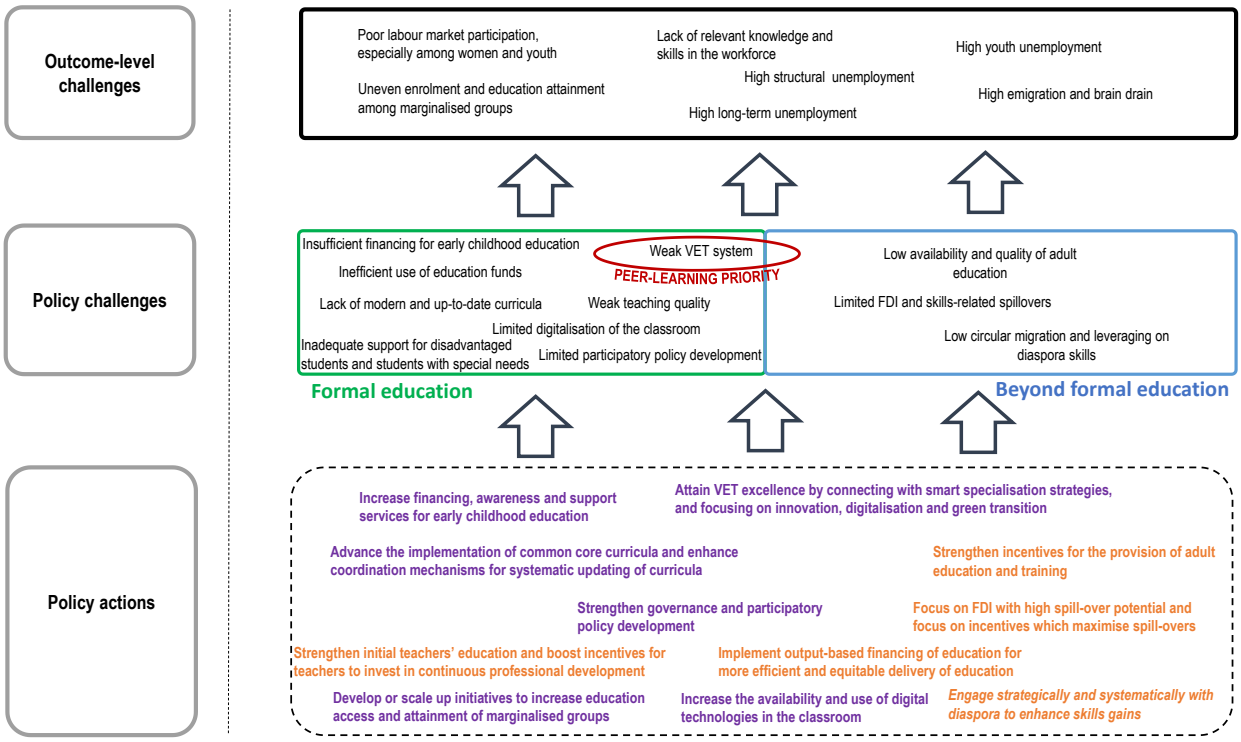
High-quality education also tops the list of aspirations for the future in North Macedonia and in the region. Quality education is an essential element of quality of life for all; young people in school; families; those who want opportunities for their own children; those who want to have children in the future; and those who depend on the younger generations to shape the future of their societies. Beyond innovation and economic opportunity, education matters for civic engagement and respect for diversity and for the rule of law. With impressive unanimity, quality education ranked topmost in all four aspirational foresight workshops held in Skopje and other capitals of the region as part of the Initial Assessment of this review (OECD, 2021[1]).[1] The foresight workshops gathered a range of participants from various ministries and agencies, the private sector, academia and civil society, who developed vision statements based on narratives of the lives of future citizens.

This report builds on an extensive peer-learning process with practitioners and experts to provide suggestions for strengthening education and competencies in North Macedonia and in the region. Building on the Governmental Learning Spiral methodology (Blindenbacher and Nashat, 2010[2]), two peer-learning workshops brought together experts and practitioners from across the region and beyond to prioritise among challenges and solutions, develop ideas for action and learn from each other (Box 2.1 of Chapter 2). The peer-learning workshops on education and competencies served three complementary aims: to identify of outcome-level challenges hampering the build-up of competencies; to identify key policy challenges; and to put forward key policy priorities for North Macedonia and for the region (Figure 6.1).

Over the past decade, North Macedonia has taken important steps to boost the quality and relevance of education across all levels. Significant progress has been made in ensuring full participation in basic compulsory schooling and in making learning more competency-oriented through the introduction of competency-based curricula. North Macedonia's regular participation in the OECD Programme for International Student Assessment (PISA) provides valuable data and benchmarking that can help authorities identify and close existing learning gaps. Adoption of the Education Strategy 2018-25, along with related action plans, laws and by-laws, clearly signals that education is a top priority for authorities.

To sustain progress in building key competencies of student and adults, North Macedonia must now tackle a set of important problems that remain (Figure 6.1). While primary education enrolment rates are high, compared with international benchmarks, North Macedonia has one the lowest secondary and tertiary education enrolment rates. Limited availability of early childhood education and care (ECEC), especially in rural areas, hampers acquisition of foundational skills needed to acquire key competencies. North Macedonia's education system also does not perform well in terms of outcomes and equity. Performance in PISA is very low in terms of test scores, and ethnic Albanian students have lower results than ethnic Macedonian students. The existing education system tends to focus on top performers and neglect others, further affecting equity in the education system. It also fails to equip people with job-ready skills. In general, education is not sufficiently aligned with labour market needs, leaving many without adequate employment opportunities. In turn, this boosts the desire to migrate, especially among the young. While many students enrol in technical vocational education and training (VET) programmes, many schools lack the infrastructure and resources necessary to provide students with competencies needed to thrive in the labour market.

Figure 6.1. Strengthening education and competencies in North Macedonia and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Eleven priority actions have a great potential to strengthen education and competencies in North Macedonia, with VET excellence being the key priority (Figure 6.1).

- Attain VET excellence by connecting with smart specialisation strategies while focusing on innovation, digitalisation and the green transition (peer-learning priority)
- Increase access to early childhood education and care (ECEC)
- Foster equitable education at all levels
- Strengthen the governance of education policy
- Make efficient use of education financing
- Update and modernise curricula
- Improve teaching quality
- Employ digital technologies in the classroom
- Increase access to and quality of adult education
- Leverage foreign direct investment (FDI) to boost skills
- Foster closer linkages with the diaspora.

This chapter is divided into three sections. Sections 6.1 and 6.2 provide policy implications across the eleven policy actions through a prism of challenges specific to North Macedonia. Section 6.3 provides indicators against which progress can be measured in implementing all the policy priorities for North Macedonia. This chapter is complemented by the regional chapter (Chapter 2), which provides more specific policy options for the eleven policy actions based on international practices that may also be applied, albeit to different degrees, to North Macedonia.

6.1. Improving the quality and relevance of formal education in North Macedonia

6.1.1. Attaining VET excellence is the key peer-learning priority in North Macedonia

Through the MDR peer-learning process, experts from North Macedonia selected striving for excellence in VET as the key priority for improving educational outcomes. An inadequately educated workforce is the third greatest obstacle to doing business identified by firms in North Macedonia, (World Bank, 2020[3]). High-quality VET can help overcome this situation. Strong VET systems bring together VET providers, employers, research centres, development agencies, employment services and other stakeholders to develop competencies needed for economic and social development (European Commission, 2021[4]). A well designed VET system can also play an integral role in the implementation of smart specialisation strategies[2] through knowledge diffusion, especially in less developed areas, and foster innovation and expansion of digital and green technologies (European Commission, 2019[5]).

A push for excellence in VET must ensure relevant content and appropriate organisation. The current VET system in North Macedonia is characterised by poor educational outcomes, including insufficient general competencies (such as reading and writing), low technical skills and limited exposure to practical work. Less than 45% of recent VET graduates report using knowledge and skills they acquired during their education in their current job; 37% do not do an internship while in training (ETF, 2016[6]). The governance of the VET system has been driving some of these poor results. Currently, municipalities are responsible for VET; the result was a proliferation of classes across the economy. Analysis shows, however, that they have often introduced new classes that did not reflect a local need for such professions. Also, teachers often lacked skills to provide adequate training in those areas (World Bank, 2018[7]).

Establishing three regional VET centres is seen as a key tool to achieve VET excellence in North Macedonia, yet will require broad support and collaboration, especially from municipalities. The vision to establish three regional VET centres is part of North Macedonia's Education Strategy (2018-25). In addition to improving overall governance and efficiency of the VET system, the regional centres aim to focus increasingly on lifelong learning, catering to the needs of enterprises and creating partnerships with other relevant partners. In collaboration with educational institutions and other ministries, the Ministry of Education published (in 2021) a concept document on the functioning of the regional VET centres. Peer-learning participants from North Macedonia put forward dissemination of the concept document as one action to inform the broader public and obtain feedback. As a next step, a law on the regional VET would need to be adopted (Box 6.1). Given the vast network of VET institutions currently under the responsibility of municipalities,[3] the government will need to obtain full support and secure municipal collaboration to phase out existing VET institutions and make the three regional centres fully functional and accessible (ETF, 2020[8]).

Ensuring better alignment with labour market needs and creating linkages with the labour market should be at the core of efforts to attain VET excellence. In recent years, North Macedonia initiated important VET reforms with a strong focus on work-based learning (i.e. making work-based learning mandatory for all students at the beginning of their third year, although finding placements in companies remains a challenge) (ETF, 2020[9]). To further strengthen linkages with the labour market and ensure alignment with labour market needs (for both emerging regional VET centres and existing VET institutions), the peer-learning participants proposed several actions: carry out continuous analysis of the regional labour market and its evolution; create conditions for stronger collaboration among all relevant actors, including VET, the private sector, universities, civil society and others; create conditions for stronger involvement of the private sector; and implement and monitor a demand-driven model of work-based learning (Box 6.1).

Boosting teaching quality and improving the attractiveness of VET professions should also be integral to the strategy to strengthen VET excellence. The quality of VET teachers and trainers has been outlined in the Education Strategy 2018-25. Improved teacher knowledge about use of modern technologies in technical subjects and the managerial capacity of vocational school principals are key (ETF, 2020[9]). Peer-learning participants stressed the need to improve practice-oriented teaching at VET institutions (Box 6.1), including case study methods, and simulation techniques (ETF, 2016[6]). At present, recruitment of teachers is very rigid and does not allow practitioners outside education to enter the profession, unlike several EU countries with successful VET systems. Finally, teacher renumeration is low, and no reward system is in place for VET teachers (ETF, 2019[10]).

Box 6.1. Peer-learning suggestions to attain VET excellence in North Macedonia

To attain VET excellence in North Macedonia, especially in the context of the newly established regional VET centres, peer-learning participants (representing the Office from the Prime Minister, the Ministry of Education and Science, the Bureau for Development of Education, the University Saint Cyril and Methodius in Skopje, and the Delegation of German Industry and Commerce in North Macedonia) suggested an action plan, comprising three major goals, with corresponding measures and indicators (Table 6.1).

Table 6.1. Action plan to attain VET excellence in North Macedonia through regional VET centres

Policy areas	Actions	Monitoring indicators
Set up foundations for the three regional VET centres	Disseminate the concept report on establishing and the functioning of regional VET centres	• Availability of the report on all relevant websites • Feedback from regions on the activities
	Adopt relevant legal provision	• Adopted law for VET defining regional VET centres
Create linkages with labour markets	Carry out continuous analysis of regional labour markets and their evolution	• Reports on labour market analysis (relevant data exists from 2019 onwards) • Labour market need forecasts
	Create conditions for stronger collaboration among VET, the private sector, universities, civil society and other actors	• Pilot projects among VET, the private sector, universities, civil society and actor actors, including on adapting curricula, innovation projects and in other areas • Applications for funds related to collaborative projects involving VET, the private sector, universities, civil society and other actors • Number of developed occupation standards done in collaboration with VET, the private sector, universities, civil society and other actors • Pilot projects in collaboration with VET, the private sector, including on work-based learning
	Implement and monitor a demand-driven model of work-based learning	• Number of trained mentors in companies • Number of students involved in work-based learning
Boosting teaching quality	Train teachers in practical skills and new technologies	• Number of teachers trained focusing on practical skills and application of technologies

Source: OECD peer-learning workshops.

Complementary to the above, VET needs to be better equipped to improve the quality of teaching. The combination of a high number of VET schools with low funding has led to a situation in which VET schools are poorly equipped. Given the technical nature of the VET curriculum, significant need exists for modern equipment**.** As part of the recent tracer study, students mentioned poor quality and low availability of technical equipment as two important issue affecting their studies (ETF, 2016[6]).

Finally, improving selection into VET programmes and strengthening the attractiveness of all VET tracks is important for improving education outcomes. Due to lack of available places in general schools (gymnasiums), students in some areas of North Macedonia are obliged to enrol in VET schools upon finishing their elementary education (primary and lower secondary). This can affect their motivation and potentially also the VET outcomes. Lack of external student evaluation at the end of lower secondary education[4] means the decision of who goes to gymnasium or VET is left to teacher judgement, which can lead to a skills mismatch at later stages. Providing better options to attend general schools (including through better transport options) and putting in place an objective evaluation system at the end of lower secondary education would improve selection at the upper secondary level. In addition, attendance is very low in two- and three-year tracks (2% and 4%, respectively) that aim to prepare students directly for the labour market. Strengthening the attractiveness of these tracks could also be beneficial for building relevant labour market competencies (OECD, 2019[11]).

6.1.2. Increasing access to ECEC is critical for building foundational skills for work and for life

North Macedonia needs to focus on implementing its strategic priorities to boost ECEC access to prepare children for later stages of education. Only 41.8% of children aged 3-5 years attended a preschool facility in 2018 (UNESCO, 2020[12]), which is very low in comparison to the OECD average of 81.7% in 2020 (OECD, 2021[13]). Children from poor and disadvantaged backgrounds are even less likely to participate in ECEC (OECD, 2021[14]): only 4% of Roma children and 0.4% of the poorest quintile attended pre-school (World Bank, 2015[15]). The Education Strategy 2018-2025 aims to improve enrolment and inclusiveness in preschool education by: increasing the network of preschool institutions; improving the physical conditions of schools; improving teaching material; and training staff to work with children who have childhood developmental difficulties (Ministry of Education and Science, 2018[16]).

One important policy consideration is to ensure adequate funding for ECEC, especially for the most vulnerable groups and for areas with limited ECEC facilities. Funding for ECEC comes almost entirely from the central government, with municipalities receiving block grants according to a funding formula based on the capacity of each ECEC facility and the number of staff. The formula does not consider the socio-economic background of children or their special needs. Many parents therefore have to pay additional fees for both public (e.g. for meals) and private ECEC services, which can be a significant barrier for enrolment, especially for the Roma population (OECD, 2019[11]). The funding formula assumes that the costs of care per child are the same across North Macedonia and treats all facilities equally, regardless of location. This accentuates disparities in ECEC access across North Macedonia (Eurydice, 2021[17]).

6.1.3. Fostering equitable education at all levels is essential for boosting the size and quality of the workforce in North Macedonia

Given current disparities, North Macedonia should scale up initiatives that target disadvantaged students, minorities and students from rural areas at all levels of education. Based on the latest available data (from 2011), enrolment rates in upper secondary education were substantially lower for students from the poorest quintile (50%) compared to those from the richest income quintile (83%) (OECD, 2019[11]). Also, education participation and attainment among the Roma population is systematically lower than the rest of the population. Among Roma, the secondary school attendance rate is 60% and the completion rate is 52% (UNICEF, 2021[18]). The Albanian ethnic minority also has lower participation rates

than the general population in secondary and tertiary education. Worse educational performance for students taught in Albanian highlights disparities in teaching quality and learning conditions between schools taught in Albanian and in Macedonian. Finally, children from rural backgrounds are less likely to attend upper secondary school (61% against 75% in urban areas). Finally, the rural-urban performance gap is among the largest of all economies participating in the PISA, equivalent to 1.5 school years. The provision of infrastructure and services in rural schools is rather poor (OECD, 2019[11]).

The "Be IN, be INClusive, be INcluded" project is an important initiative that the Government of North Macedonia could build upon. The project awarded scholarships to 287 first- and second-grade children with special education needs in the school year 2020/2021. It was implemented by the Foundation for Educational and Cultural Initiatives ("Step by Step" programme) in co-operation with the Association for Promotion and Development of Inclusive Society ("Inclusive") and the Association for Services to People with disability ("Handimak"). The project also provides tutoring support for these children (Eurydice, 2021[17]).

6.1.4. Strengthening the governance of education policy

Improving policy co-ordination at the central level and increasing the capacities of relevant specialised agencies could ensure better implementation of North Macedonia's strategic priorities. Ambitious reforms in the education sector, including the Education Strategy 2018-25 and the associated Action Plan for 2020, will require strong capacities and effective co-ordination among different stakeholders. The Ministry of Education and Science (MoES) is responsible for developing strategic and legal documents and for implementing policy across all education levels (except preschool); however, it often lacks technical capacities for policy implementation. At the same time, co-ordination with and among specialised agencies[5] responsible for providing technical expertise to the MoES is very limited. As a result, the agencies are often not involved in policy implementation, which can have important impacts on educational outcomes. The specialised agencies also lack specific skills (e.g. psychometric, statistical or information and communication technologies (ICT)), preventing them from fulfilling their functions effectively. A recent OECD evaluation shows, for example, that the Bureau for Development of Education lacks the necessary resources to provide teacher training (OECD, 2019[11]).

To further strengthen the governance of the education system it would be important to ensure better data collection and its harmonisation across various areas. North Macedonia has an operational education management information system (EMIS) in place, which however is not used sufficiently by policy makers. The systematic collection and sharing of education-related data at the central level is undermined by the lack of staff at EMIS and fragmented data collection done by various ministries and agencies. Management of data and its use for evidence-based policy making will therefore require an increased number of staff, systematisation of rules for data collection and data analysis to inform policies (OECD, 2019[11]).

North Macedonia should define education goals that are measurable and introduce a national student assessment system to monitor policy progress. The Education Strategy 2018-25 outlines many activities but does not prioritise them or set clear targets. Also, the current lack of a national student assessment system hampers collection of nationally reliable data on student learning performance that would complement PISA results. Monitoring student achievement would support efforts to boost individual performance and could act as an accountability framework for school performance (OECD, 2019[11]).

6.1.5. More efficient use of education financing is needed to improve learning outcomes at all levels

North Macedonia could improve the effectiveness and efficiency of spending on education, especially by rationalising school networks and classrooms. At 3.9% of GDP in 2017, North Macedonia's spending on education is in line with regional peers, albeit lower than many other benchmark economies (Figure 2.13 – Panel A of Chapter 2). At similar rates of spending, neighbouring economies have achieved better outcomes in terms of participation rates and student performance, indicating scope to improve efficiency of spending (Figure 2.1 of Chapter 2). North Macedonia has a large number of schools with relatively few students (in 2016, more than 85% of primary and secondary schools had fewer than 50 students) and with very high variations in the number of students per teacher. Some rural areas have just 3 students per teacher, against 18 in urban areas (OECD, 2019[11]). To ensure rationalisation of school networks and classrooms, consolidation would be an important step forward. This would entail closing some schools and transferring their students and teachers to other sites, which can increase school size but make education provision more efficient and effective. Establishing the three regional VET centres is an important step in this direction.

Consider improving mechanisms for municipal spending of education funds. Municipalities in North Macedonia have autonomy to allocate money received from the central level to local schools. At present, however, this is often done in an *ad hoc* manner. Funding formulas that could provide transparency on how funds are distributed among schools are not mandatory and are used only in some municipalities. For example, in Skopje the formula is based on the number of students and the size of the school building. Lack of uniform standards and methods to distribute funding has resulted in large variations in school quality and large disparities within North Macedonia. Replacing the current non-uniform and non-transparent funding criteria used by municipalities with clear guidelines on funding distribution could include, among others, student's socio-economic backgrounds. Such criteria could support schools in improving their outcomes and equity (OECD, 2019[11]).

6.1.6. Strengthening the acquisition of knowledge through the use of national learning standards, and coherent and flexible curricula

North Macedonia needs to ensure coherence in national learning standards for primary education and school curricula; this should be accompanied by building teacher skills. In recent years, important efforts have been undertaken to modernise curricula, particularly for the early grades. However, learning standards, which should provide goals to assess what students should know and be able to do at each grade level, are fragmented, making implementation of curricula very challenging, especially for teachers. The Bureau for Development of Education (BDE) created learning standards for nearly all subjects and grades. At the same time (in 2014), the Cambridge curriculum was introduced for sciences and mathematics to provide learning standards for the two subjects focused on knowledge application and critical thinking. The key concern is that the two standards are not aligned, which can have negative impacts on the quality of teaching and student assessment. While introducing the Cambridge curricula was a positive step forward, inadequate guidance meant the reform created challenges for teachers regarding expectations for student learning. To date, learning standards for reading and writing in grades 1-3 are entirely absent, which is particularly concerning given that these subjects provide important foundations for later learning (OECD, 2019[11]).

Upper secondary curricula need to be reformed to focus on emerging competencies and have flexibility to adapt to changing labour market needs, while making sure clear learning standards are put in place. For the upper secondary education, curricula in North Macedonia is outdated, focusing on factual knowledge instead of competencies such as critical thinking. The old curricula are also rather rigid, focusing on a broad spectrum of areas (15 mandatory subjects for grade 8 students), which can undermine in-depth learning (OECD, 2013[19]). Also, learning standards are sometimes conflictual (e.g. in

mathematics, standards change between grade 9 and 10), which make expectations on learning outcomes inconsistent and impede evaluation by teachers (OECD, 2019[11]).

6.1.7. Improving teaching quality

The education system of North Macedonia needs to ensure that motivated and skilled persons are selected for teaching profession. Currently, lack of selection into initial teacher education (ITE) has resulted in over-supply of teachers: for every opening in public schools, about 30 candidates apply. Additionally, teacher recruitment is often not based on merit, but on acquaintances or political connections, which leads to situations in which the best candidates are not selected. The proposed introduction of a teacher academy that would be responsible for training and licensing incoming teachers after their studies aims to address this problem. It would be more effective and efficient to make ITE more selective and rigorous (OECD, 2019[11]).

North Macedonia also needs to put stronger emphasis on continuous professional development (CPD) and in-service training for teachers, and on better use of the internet to access relevant material and practices on good teaching. Currently, about 60 hours of CPD are prescribed for teachers over the course of three years.[6] In 2015, only about 15% of teachers had participated in such activities, compared with an OECD average of 50% (OECD, 2016[20]). Formally recognising the BDE as the key government body supporting the teaching profession – and providing the institution more funding – would improve quality of its services (OECD, 2019[11]). In-service teacher training is quite limited since schools often do not receive adequate funding for such training (OECD, 2019[11]; UNICEF, 2019[21]). To boost teacher training, North Macedonia should tap more possibilities offered by the internet. This includes setting up an online platform for teachers to access tools and information, and to learn from each other. Currently, there is a lack of an online platform that supports exchange of material and practices that meet minimum quality standards (OECD, 2019[11]).

Teacher compensation and career progression ought to be linked to performance. Despite efforts to introduce a merit-based career structure for teachers, such a system has not been implemented. Teachers are well-respected in North Macedonia and the majority is paid above-average salaries; but compensation is mainly flat rather than linked to performance (OECD, 2019[11]). This limits incentives for teachers to improve their performance or to invest in their CPD. Limited and inconsistent appraisal of teachers further compounds this challenge (OECD, 2019[11]; UNICEF, 2019[21]).

6.1.8. Systematically employing digital technologies in the classroom

North Macedonia made great progress by setting the digital skills agenda as one of its key priorities. As part of its agenda to develop critical thinking and become active citizens, the Education Strategy 2018-25 emphasises the need to: develop the digital skills of students; incorporate digital technologies in schools; and provide training to teachers to use new technologies in education. Next to Greece and Iceland, North Macedonia has the highest number of recommended hours for ICT as a compulsory subject in primary education (Eurydice, 2018[22]). The previous VET Strategy 2013-20 also highlighted the importance of ICT in teaching and learning. The Law on the Upper Secondary Education introduced ICT as a separate subject in upper secondary VET curricula (ETF, 2018[23]).

More implementation is now required to increase student access to digital technologies in the classroom, including increasing availability of computers and supporting their use. According to data from PISA, North Macedonia has just over 0.5 computers per pupil in schools – the highest rate in the Western Balkan region. However, it remains lower than the OECD average of 0.8 (OECD, 2020[24]). Moreover, no relationship could be found between the number of computers and student outcomes in North Macedonia, indicating that providing computers needs to be accompanied by efforts to improve student skills (OECD, 2020[24]). Based on surveys, only about 24% of school principals in North Macedonia

report that their schools have adequate access to an online learning support platform (OECD, 2020[24]). In North Macedonia, about 72.2% of teachers report having a need for professional development in ICT-related fields (ETF, 2018[25]; ETF, 2018[26]; ETF, 2017[27]).

6.2. Boosting competencies in North Macedonia beyond formal education

6.2.1. Increasing access to and the quality of adult education will be essential for creating an agile workforce that can adapt to changes in the labour market

Flexible training provisions and recognition of previous learning (including informal) are key levers to improve participation in adult learning. About 20% of university graduates in North Macedonia are unemployed; yet employers complain they cannot find people with the necessary skills. One-third of tertiary graduates who do find employment have an official qualification that does not match their current job, while a further one-third are over-educated for their job (World Bank, 2018[7]). Only about 31% of adult persons have basic or above basic digital skills, significantly lower than the EU average (Eurostat, 2021[28]). In 2016, only 14.4% of adults aged 25-64 years participated in some type of formal and/or non-formal education, substantially lower than the EU-27 average of 47.8% (Figure 2.16 of Chapter 2). Lower educated and socially disadvantaged adults remain almost excluded from up-skilling opportunities (ETF, 2019[10]). A new Law on Adult Education, which aims to align adult formation with the national qualifications framework, is in the process of adoption (European Commission, 2021[29]). The Centre for Adult Education is currently implementing a validation system of non-formal learning, which can support recognition of acquired skills and improve their transferability (Ministry of Finance, MKD, 2020[30]; ETF, 2019[10]).

6.2.2. Leveraging foreign direct investment can help to boost competencies of the workforce in North Macedonia

Over the years, North Macedonia has made considerable efforts to attract FDI, showing a great scope for spillovers of knowledge and competencies to local businesses and communities. Since the 2008 global financial crisis, North Macedonia has been able to attract significant export-processing FDI in its special economic zones (SEZs). In fact, investment in SEZs has contributed significantly to the recovery of manufacturing in North Macedonia, making up 45% of total manufacturing (OECD, 2017[31]). This has revived the automotive manufacturing sector in particular and strongly contributed to the growth, diversification and upgrading of the export sector.

Limited spillovers of FDI on domestic enterprises call for a strategic approach in working with foreign enterprises, including understanding their needs and taking steps to address them. While FDI has led to job creation in North Macedonia,[7] especially in the areas located in the vicinity of SEZs, linkages that could have increased the capacities of local enterprises remain limited. Most SEZ-based companies import their supplies, largely because local suppliers are unable to meet the technical and safety standards of foreign enterprises (International Monetary Fund, 2015[32]). This highlights the need to support local business, especially small- and medium-sized enterprises (SMEs) through entrepreneurship and innovation programmes that can boost their competencies and capacities (Brussevich and Tan, 2018[33]). In parallel, foreign investors report struggling to find the skills they need. The automotive industry, for example, has difficulties filling not only management and technical positions but also low-skill posts (OECD, 2021[1]).

Co-operation on training between some foreign investors exists but could be expanded. A notable example of such collaboration is the initiative of the Delegation of German Industry and Commerce and the 12 partner companies[8], through which two new qualifications (industrial mechatronics technician and production machines technician) were introduced in 2018 and 2019 in VET schools, together with opportunities for work-based learning (Box 2.3 of Chapter 2). Another example is Kemet (a US-based

manufacturer of capacitor technologies), which provides workers six months of training in Germany, Italy and the United Kingdom (Bartlett, Krasniqi and Ahmetbašić, 2019[34]). Moreover, Van Hool has established a training centre for welding professionals, collaborating with the employment service to provide official certification for the acquired skills. Van Hool is also among the companies collaborating with local secondary VET schools to provide work-based learning. Some companies in the municipality of Ilinden were involved in designing curricula for VET education, for example on ICT, electronics and automotive technologies (ETF, 2021[35]; Bartlett, Krasniqi and Ahmetbašić, 2019[34]).

6.2.3. Fostering closer linkages with the diaspora can be a source of new competencies

The diaspora and its members can be an important source of knowledge transfer for North Macedonia. Outward migration from North Macedonia has been intensive. Some estimates suggest as many as 650 000 citizens are living abroad, about one-third of the total population (ETF, 2021[35]). Based on the OECD DIOC database (OECD, 2021[36]), of about 151 000 persons born in North Macedonia and living and working in the OECD countries, a large majority (64.3%) are employed in medium and highly qualified professions such as: plant and machine operators and assemblers; technicians and associate professionals; professionals; services and sales workers; and craft and related trades workers (Figure 2.18 of Chapter 2). This indicates great potential for knowledge transfer. North Macedonia's diaspora also maintains strong familial connections, evident through the large volumes of remittances. In 2020, remittances equalled a 3.4% share of GDP (World Bank, 2021[37]). Unofficially, remittances are likely to be even higher – up to 10% of GDP (Petreski and Jovanovic, 2013[38]).

Given the large North Macedonian diaspora, scope exists to improve links and better leverage knowledge and competencies accumulated abroad. To date, only a limited number of diaspora members have returned to North Macedonia. The National Diaspora Cooperation Strategy (adopted in 2019) lacks concrete solutions on how to better resolve emigration issues. Certain deficiencies that need to be addressed include limited knowledge on how and why certain recipients of post-graduate scholarships have circumvented the obligation to return to North Macedonia after the end of their studies. The strategy is also undermined by outdated census data (ETF, 2021[35]).

6.3. Indicators to monitor the overall policy progress in North Macedonia

To monitor the policy progress in developing competencies within the VET system and other policy priorities in North Macedonia, the OECD suggests a set of key indicators, including values for North Macedonia and benchmark countries (either the OECD or the EU average, based on data availability). Table 6.2 provides difference between the benchmark value and the value for North Macedonia.

Table 6.2. Indicators to monitor progress in implementing policy in North Macedonia

2018, unless otherwise specified

Indicators	North Macedonia	Benchmark value
Children (aged 3-5) attending a preschool programme (%)	41.8	81.7****
Mean PISA science score	413	489
Students attaining at least Level 2 proficiency in reading (%)	45	77
Individuals who have basic or above basic digital skills (%)	31*	58*
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	19.8****	15.5****
Teachers having at least a master's degree in advantaged schools (%)	-	47.2
Teachers having at least a master's degree in disadvantaged schools (%)	-	40
Schools where principals agree or strongly agree that an effective online support platform is available (%)	24	54
Public spending on education (% of GDP)	3.9**	4.9
Adult (aged 25-64) participation in education and training, formal (%)	4***	5.8***
Adult (aged 25-64) participation in education and training, informal (%)	10.4***	42.7***

Note: *2019, **2013, ***2016, ****2020. Benchmark values are based on current OECD averages with two exceptions: the EU average is the benchmark for *Individuals who have basic or above basic digital skills* and *Adult participation in education and training*.
Source: OECD (2021[39]), PISA 2018 Database; World Bank (2021[37]) *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; UNICEF (2021[40]); ILO (2021[41]), *ILOStat* (database), https://ilostat.ilo.org/data/; Eurostat (2020[42]), Database - Skills-related statistics, https://ec.europa.eu/eurostat/web/skills/data/database.

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Notes

[1] Due to the outbreak of the COVID-19 pandemic, the foresight workshop was not held in Bosnia and Herzegovina.

[2] Smart specialisation strategies combine industrial, educational and innovation policies to identify and select a limited number of priority areas for knowledge-based investments, focusing on their strengths and comparative advantages of countries or regions (OECD, 2021[43]).

[3] Currently, North Macedonia has 87 vocational schools, comprising both vocational schools and schools that provide VET programmes (ETF, 2020[9]).

[4] North Macedonia is the only Western Balkan economy that has no external evaluation in place to assess tracking decisions in upper secondary education, relying instead solely on teacher judgements. This threatens fairness and suitability of students in the VET track (OECD, 2020[24]).

[5] Including the Bureau for Development of Education (BDE), the State Education Inspectorate (SEI), the National Examination Centre (NEC), the Vocational Education and Training Centre (VETC) and the National Board for the Macedonian Qualification Framework (MQF).

[6] 10 mandatory hours in priority areas are provided by the BDE, 40 hours are programmes subsidised by the BDE, and the remainder can be done at teachers' own costs (OECD, 2019[11]).

[7] Companies active in SEZs have created about 6 800 jobs (OECD, 2017[31]).

[8] Vitaminka, Marquardt, Kromberg&Schubert, Dräxlmaier, LTH Learnica, WIK, ODW Elektrik, Gentherm, Kostal, Magna International, Kiel, and Brako.

7 Boosting education and competencies in Serbia

Serbia has made a great progress in boosting domestic competencies over the last decades. Nearly all children participate in compulsory education. Serbia also has a very high proportion of students who go into upper-secondary vocational education and training (VET). Participation in adult learning, both formal and informal, is among the highest in the region. To sustain progress in building key competencies of citizens and unleash their full potential, this chapter puts forward policy priorities for formal education and beyond. Critical foundational skills of children can be developed by providing better access to early childhood education and care (ECEC), especially in rural areas. While VET is the most popular education track in Serbia, it requires more equipment and better financing to leverage its full potential. At all education levels, Serbia should further improve the quality of teaching by strengthening initial teacher education and offering more opportunities for continued professional development. Setting higher standards for entry into the profession and having clear performance and competency components for teacher compensation and career progression would also improve teaching quality. Finally, Serbia has attracted significant foreign direct investment, which can serve as a springboard for increased linkages for knowledge transfer.

The Initial Assessment of this Multi-dimensional Review of the Western Balkans identified education and competencies for economic transformation as the top priorities for Serbia and for all economies across the region (OECD, 2021[1]). While economic structures vary significantly from one economy to another, finding new sources of productivity growth and engines for future transformation is an urgent task for all the regional economies. Good jobs are scarce and young people continue to leave. Boosting youth and workforce competencies can unlock new opportunities to overcome these trends. The more unfavourable an economy's current wage-to-productivity ratio, the more urgent it becomes to find new and more productive activities to build a strong economy.

High-quality education also tops the list of aspirations for the future in Serbia and in the region. Quality education is an essential element of quality of life for all; young people in school; families; those who want opportunities for their own children; those who want to have children in the future; and those who depend on younger generations to shape the future of their societies. Beyond innovation and economic opportunity, education also matters for civic engagement and respect for diversity and for the rule of law. With impressive unanimity, quality education ranked topmost in all four aspirational foresight workshops held in Belgrade and other capitals of the region as part of the Initial Assessment of this review (OECD, 2021[1]).[1] The foresight workshops gathered a range of participants from various ministries and agencies, the private sector, academia and civil society, who developed vision statements based on narratives of the lives of future citizens.

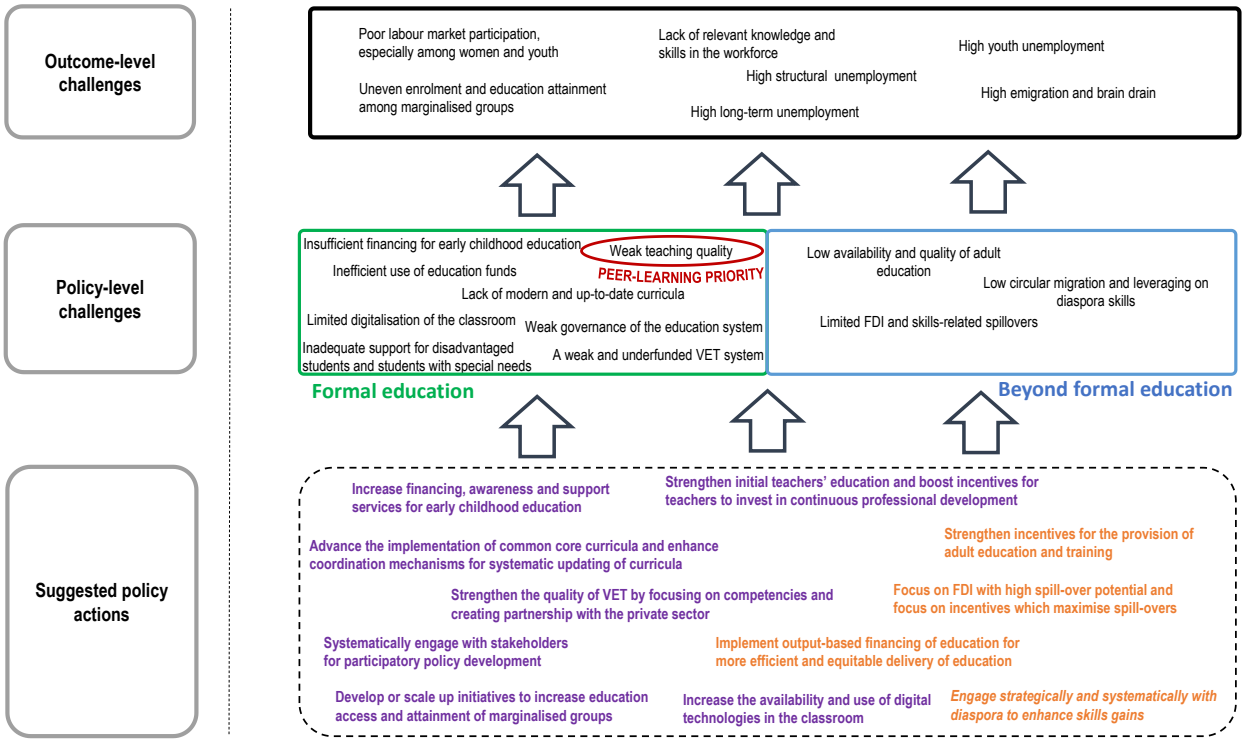
This report builds on an extensive peer-learning process with practitioners in the region and expert assessment to provide suggestions for strengthening education and competencies in Serbia and in the region. Building on the Governmental Learning Spiral methodology (Blindenbacher and Nashat, 2010[2]), two peer-learning workshops brought together experts and practitioners from across the region and beyond to prioritise among challenges and solutions, develop ideas for action, and learn from each other (Box 2.1 of Chapter 2). The peer-learning workshops on education and competencies served three complementary aims: to identify of outcome-level challenges hampering the build-up of competencies; to identify key policy challenges; and to put forward key policy priorities for Serbia and for the region (Figure 7.1).

Over the past decade, Serbia has taken important steps to boost the quality and relevance of education across all levels. Nearly all children participate in compulsory education and participation rates at other levels (including technical training) are also very high.[2] Participation at the upper-secondary level has increased significantly in recent years and is now about 87% – higher than the Western Balkan, OECD and EU averages. Serbia also has a very high proportion of students who go into upper-secondary vocational education and training (VET): about 74% of upper-secondary students enter VET rather than general education, compared to an OECD average of 47%. Two VET tracks are offered in Serbia: three-year and four-year, with the latter offering opportunity to transition to tertiary education. Student demand for four-year VET programmes has increased in recent years. In turn, vocational programmes have multiplied and been updated, some becoming very reputable (Reyes and Nguyen, 2020[3]). At 67.2%, participation in tertiary education is close to the OECD average. Participation in adult learning, both formal and informal, is among the highest in the region. Finally, Serbia made an important step forward in attracting significant foreign direct investment (FDI), which can serve as a springboard for increased linkages for knowledge transfer.

To sustain progress in building key competencies of student and adults, Serbia must now tackle a set of important outcome-level challenges that remain (Figure 7.1**)**. Serbia also has a very high proportion of students who go into upper-secondary vocational education and training (VET): about 74% of upper-secondary students enter VET rather than general education, compared to an OECD average of 47%. Limited availability of early childhood education and care (ECEC), especially in rural areas, hampers acquisition of foundational skills needed to acquire key competencies. While it is encouraging to see a large share of Serbian students enrol in VET programmes, many schools lack the infrastructure and resources necessary to provide students with competencies needed to thrive in the labour market. At the

same time not all groups have the same possibilities to attend and obtain quality education, especially persons in living in rural areas and Roma communities. In turn, lack of transport and weak learning resources – including poor teaching – are key obstacles. Many adults lack the skills necessary to thrive in the labour market. A large share of long-term unemployed demonstrates inadequate opportunities to up-skill, re-skill or acquire new competencies based on labour market needs.

Figure 7.1. Strengthening education and competencies in Serbia and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Eleven priority actions are suggested to strengthen education and competencies in Serbia, combining peer-learning results and OECD expertise, with improving teaching quality being the key peer-learning priority for Serbia (Figure 7.1).

- Improve teaching quality (peer-learning priority)
- Increase access to early childhood education
- Foster equitable education at all levels
- Strengthen governance of education policy and systematically engage with stakeholders
- Make efficient use of education financing
- Update and modernise curricula
- Improve the quality and relevance of vocational education and training
- Employ digital technologies in the classroom.
- Increase access to and quality of adult education
- Leverage foreign direct investment to boost skills
- Foster closer linkages with diaspora

This chapter is divided into three sections. Sections 7.1 and 7.2 provide policy implications for Serbia across the eleven policy actions through a prism of challenges specific to Serbia. Section 7.3 provides indicators against which policy progress can be measured in implementing all the policy priorities for Serbia. This chapter is complemented by the regional chapter, which provides more specific policy options for the eleven policy actions based on international practices, which may be applied, albeit to different degrees, also to Serbia.

7.1. Improving the quality and relevance of formal education in Serbia

7.1.1. Improving teaching quality is a key peer-learning priority in Serbia to improve learning outcomes

Peer-learning participants from Serbia selected improving teaching quality as a key priority. Teachers and educators should not only be able to convey relevant knowledge, but also possess pedagogical skills, creativity, empathy and other relevant skills to support and guide students on their educational journey (Schleicher, 2015[4]). The best-performing education systems in the world are able to attract individuals of high ability into the teaching profession, and effectively prepare, motivate and develop those individuals throughout their teaching career. Considering the evolving economic trends and changing needs for competencies, teachers and educators should be able to acquire high quality initial teacher education (ITE) and have an opportunity for regular continuous professional development (CPD). To improve teaching quality, the peer-learning participants from Serbia stressed the importance of two key actions: improve the quality of ITE for teachers and educators, and of the CPD system for teachers, principals and administrative staff (Box 7.1).

Strengthening ITE of teachers to ensure that all future teachers, irrespective of their level of specialisation, also obtain core teaching skills would be important. Teachers coming from the Teacher Education Faculty (which includes most teachers in grades 1-4 of primary school) have completed coursework in important teaching subjects including pedagogy, development psychology, teaching methods and didactics. Their education also includes practical training in teaching (Uciteljski Fakultet Univerzitet u Beogradu, 2021[5]). Middle (from 5th grade onwards) and high school teachers, however, specialise in particular subjects and can come from university programmes that do not necessarily specialise in training teachers. As a result, many of these teachers start their jobs with limited knowledge or practice. In the case of future teachers and educators, initial education should therefore be combined with practical training. The peer-learning participants thus put forward the need to improve the concept of trainee apprenticeship and career guidance of teachers and educators.

Ensuring and improving CPD for teachers, principals and administrative staff is key for a continued build-up of school competencies. In combination with inadequate ITE, the gap in competencies among teachers can persist when there is limited offer, quality and uptake of teachers' in-service training (Maghnouj et al., 2019[6]). In Serbia, teachers are required to complete 100 credit points of CPD (one hour of training equals 1 point) over five years. In 2017, less than half of teachers had achieved 80 credit points over the reference period (Politika, 2016[7]). A survey of teachers found that lack of financial resources and support is the primary obstacle to fulfilment of teachers' required CPD credits, followed by dissatisfaction with the training offer. Some areas where teachers see the highest need for CPD include special needs education and teaching for new technologies in the workplace (OECD, 2014[8]). However, there is no evident link between available training programmes (which are centrally determined) and this demand (OECD, 2012[9]). Peer-learning participants stressed the need for a CPD system for teachers, educators and professional associates, through certified institutions and trainers. To improve school leadership – and thus ensure high-quality and equitable education that adapts to the needs of society – it is also important to develop the CPD system of continuous professional training of principals and secretaries of educational institutions.

Serbia should set higher standards for entry into the profession, providing adequate incentives and promoting merit-based hiring to improve the quality of teaching. Requirements for entering the teaching profession in Serbia are not as high as in OECD countries (even though Master's level education is a requirement for new entrants) – but neither are teacher salaries. Currently, the salaries of teachers with a university degree are 22% lower than the national average and 25% below the standard public administration salary (World Bank, 2019[10]). Also, it is not clear that hiring in the school system is merit-based. Schools normally have significant responsibility and autonomy in hiring and dismissing teachers. In recent years, however, the obligation to prioritise hiring unemployed licensed teachers over new teachers has infringed upon schools' autonomy and negatively impacted the meritocracy and competitiveness of the hiring process. The lack of clear guidelines for hiring and firing teachers has also led to the perception (among many stakeholders) that the appointment and promotion of teachers and school staff are based on political affiliation or favours, not (only) on competency (Maghnouj et al., 2019[6]).

Teachers' compensation and career progression should have a performance and competency component. Teachers' salaries are mainly centrally determined and linked to years of experience. Thus it is currently difficult to reward strong teacher performance with higher pay within the school system. This limits the incentives for teachers to improve their performance and to invest in their continued professional development (Maghnouj et al., 2019[6]).

Box 7.1. Suggestions for improving teaching quality in Serbia

To improve teaching quality and teachers' professional development in Serbia, participants of the peer-learning workshops suggested an action plan to complement current policy efforts in Serbia. Representing the Ministry of European Integration, the Ministry of Education, Science and Technological Development (MoESTD), the Institute for Education Quality and Evaluation (IEQE), and the Centre for Education Policies, participants more specifically suggested two major goals, with corresponding measures and indicators (Table 7.1).

Table 7.1. Action plan to strengthen teachers' professional development in Serbia

Goals and measures	Milestones and monitoring indicators
Goal 1: Improved quality of ITE for teachers and educators • **Measure 1**: Improve the quality of study programmes for ITE • **Measure 2**: Improve the concept of trainee apprenticeship and career guidance of teachers and educators	• Developmentof national qualification standards for teachers, subject teachers and educators • Adoption of revised standards for accreditation of study programmes pertaining to the education of teachers and educators • Number of trained reviewers for implementing revised standards for accreditation of study programmes pertaining to the education of teachers and educators • Number of teachers in higher education who have participated in activities pertaining to CPD in the area of education science • Number of teachers and educators who have attended training courses for mentoring students during their practice in educational institutions • Accessible repository with useful materials for students' practice in schools and pre-school institutions • Increased number of students enrolling in ITE programmes in areas where an insufficient number of teachers were being trained • Increased number of students who enrol in ITE programmes and educators who are motivated for the profession of a teacher and educator
Goal 2: Improved quality of the CPD system for teachers, educators and professional associates • **Measure 1**: Improve the CPD system for teachers, educators and professional associates, and develop the system for promoting persons employed in education to higher academic titles • **Measure 2**: Develop the CPD system for principals and secretaries of educational institutions	

To ensure successful implementation of the proposed measures, peer-learning participants stressed the importance of a broad-based collaboration between different stakeholders. As the leading institution responsible for boosting education and competencies in Serbia, the MoESTD should ensure systematic involvement of all stakeholders in the process of creating the best conditions for ITE and CPD.

Source: OECD peer-learning workshops.

7.1.2. Increasing access to early childhood education and care is critical for building foundational skills for work and for life

Boosting access to early childhood education and care (ECEC), especially for children from disadvantaged backgrounds is a critical challenge that needs to be addressed in Serbia. Only 65.3% of children aged 3 to 6.5 years are enrolled in a pre-school programme (in 2020), which is lower than some regional and global peers (e.g. 81.7% in OECD and 99.9% in EU countries) (Figure 2.15 of Chapter 2). Low-income families are particularly impacted by the limited access. Among children aged 3 to 5.5 years, ECEC attendance was less than 10% for the poorest families and only 6% for Roma (World Bank, 2018[11]). Only 63% of Roma children participate in the 9-month preparatory pre-school programme (mandatory since 2007 for children aged 6 years) compared to 98% of non-Roma children (Maghnouj et al., 2019[6]). Gaps in ECEC enrolment can also be noted between urban and rural areas, with urban children of pre-school age being more than twice as likely to attend an ECEC programme as their rural peers (UNICEF, 2015[12]).

Serbia should continue improving the infrastructure for ECEC, targeting particularly rural areas and municipalities with no ECEC facilities. Investments in hard infrastructure can be complemented with additional services focused on the poorest communities. While many new private institutions have opened to fulfil some of the unmet demand, a significant share of children still cannot attend ECEC and many institutions operate at excess capacity (Garvis, Phillipson and Harju-Luukkainen, 2018[13]). This is particularly problematic in rural areas and poor municipalities that lack resources to finance expansion of their network of facilities or to provide transportation services for children who live far from the nearest pre-school. On average, children in rural areas live about twice as far from their pre-school as urban children. Extra costs associated with transporting children to their school is an additional disincentive for pre-school enrolment in these municipalities and rural areas (Pešikan and Ivić, 2016[14]). In recent years, greater strategic focus has been placed on improving ECEC in Serbia, particularly for the most vulnerable families. With private and donor support, the government has been expanding the network of pre-schools and their capacities, while also providing financial support for children and families in need (World Bank, 2018[11]).

7.1.3. Fostering an equitable education at all levels is essential for boosting the size and quality of the Serbian workforce

Serbia should improve access to education for children living in rural areas by providing better school transport alternatives and investing more in school resources. Young people living in rural areas have substantially lower education levels. While primary school completion was almost universal, only 8% graduated from university, compared with 19% in urban settlements (Mojić, Petrović and Backović, 2021[15]). In the latest OECD Programme for International Student Assessment (PISA), on average, rural students scored 122 points lower on reading than their urban peers (OECD, 2019[16]). Lack of available transport options – and limited financial resources in many municipalities to develop adequate transport infrastructure – affect access to education. Likewise, conditions in schools are often worse in rural areas compared with urban zones due to lack of equipment and limited availability of qualified teachers (Pešikan and Ivić, 2016[14]). Understanding transportation needs and supporting municipalities in providing adequate transport options would be important steps to achieve equity between rural and urban areas. All schools in Serbia, no matter the location, should have available learning resources and quality teachers. To improve education outcomes in rural areas, the government should increase learning resources, especially among the most disadvantaged schools, and consider introducing incentives for attracting high-quality teachers to rural areas.

Increasing options for transport and raising awareness of the importance of compulsory education among Roma parents could boost access to education and improve education outcomes among Roma children. Roma enrolment lags behind that of Serbian students. Only 37% of Roma students complete compulsory education, only 20% attend upper-secondary education and less than 1% have a

higher education degree (compared to 89% and 16%, respectively, for Serbian students). Notably, these outcomes are worse among girls than boys (UNICEF, 2015[12]). Distance to educational facilities is an even bigger issue for Roma children; they often live double the distance from schools in comparison to their rural neighbours, implying the need to provide more transport alternatives for these communities. Finally, many Roma parents were found to be unaware of the mandatory nature of the pre-school preparatory programme (Pešikan and Ivić, 2016[14]).

7.1.4. Strengthening the governance of education policy

Education in Serbia has been governed by a comprehensive and ambitious strategy since 2015, but limited prioritisation of challenges and a weak performance indicator framework have made it difficult to measure progress. The Strategy for Education Development in Serbia 2020 was developed with significant stakeholder engagement and is rooted in a diagnostic of the education system, which targets the critical challenges that the country faces in improving the quality of education and its outcomes. Beyond the critical high-level objectives, however, there is limited prioritisation of issues that can drive the biggest impact. Quantitative performance indicators in the Action Plan for implementing the strategy are not always aligned with those in the strategy and some indicators are vague, making it difficult to measure the strategy implementation progress (Maghnouj et al., 2019[6]).

Institutional capacities for monitoring and evaluation (M&E) also need to be improved, especially by improving data collection for monitoring and boosting institutional capacities for conducting comprehensive evaluation. In Serbia, MoESTD, which is responsible for designing education policy at all levels, would benefit by increasing its capacity to conduct system evaluation. Having experienced staff that conduct comprehensive evaluations, would improve the implementation of Serbia's education strategy. Collection of data at the national level has also posed challenges and delayed significantly efforts to conduct national assessments (Maghnouj et al., 2019[6]).

Specialised institutes that provide technical expertise and policy development support to the MoESTD are understaffed and underfunded which limits the extent of their support. These institutions, which include the Institute for Education Quality and Evaluation (IEQE) and the Institute for Improvement of Education (IIE), have a very important role to play in the education system in Serbia due to their considerable technical expertise. However, their lack of resources and staff is a critical challenge. More funding and staff should be allocated for IEQE to improve the quality of education institutions, the process of external evaluation and self-evaluation of schools, and to ensure the quality of final exams and upcoming state exams. Moreover, more personnel is needed with skills in quantitative research, statistical, psychometric and survey design experience (Maghnouj et al., 2019[6]).

7.1.5. Ensure adequate financing to improve learning outcomes at all levels

Serbia should increase financing for education, especially secondary education. At 3.6% of GDP in 2019, Serbia's spending on education is in line with regional peers, albeit low compared with more advanced economies (Figure 2.13 – Panel A of Chapter 2). Overall public expenditure on secondary education is relatively low compared with neighbouring and EU economies (Figure 2.14 – Panel B of Chapter 2), despite similarly high enrolment rates at the secondary level. In Serbia in 2017, 92.3% of students enrolled in secondary education, above averages for the EU (91.4%) and the OECD (89.3%) (World Bank, 2021[17]). Low spending on secondary education strongly impacts VET in particular, which has a high share of Serbian students and is much more demanding in resources than general education (Section 7.1.7). Lack of funding for VET also explains the highly theoretical nature of VET in Serbia compared with more advanced economies.

Spending on primary education shows significant room for improvement and efficiency gains. Spending on primary education in Serbia is high compared with some OECD economies with similar education systems (Figure 2.14 – Panel A of Chapter 2). High spending largely reflects high teaching staff costs (90% of total budget) and the high number of teachers relative to the student population (Figure 2.13 – Panel B of Chapter 2). Capital spending is relatively low in Serbia (5.7%) compared to the OECD average (8%) (OECD, 2018[18]).

Despite past efforts to introduce a per-capita financing formula, financing of Serbian schools remains based on inputs such as number of classes and teachers. Introduction of this funding model was included in the 2009 Framework Law on Education. It was never implemented, however, and the current Law on Education no longer includes this funding model (OECD, 2018[18]). As a result, inefficiencies in education spending persist, as reflected, for example, in the growing number of teachers despite a declining student population. The high number of teachers also reflects other structural challenges such as a large number of subjects and electives starting from upper-primary school (13 subjects starting from 5th grade and more going forward) as well as a large network of small schools that requires more teaching staff (World Bank, 2019[10]). In 2014, only 7% of students accounted for 64% of all school buildings in Serbia, with 105 primary schools and 7 primary special schools having only 1 enrolled student (World Bank, 2019[10]). The large network of schools also has a negative impact on teaching quality: many teachers have to work in multiple schools to fulfil their teaching quota, which limits their time spent on preparation and other activities. Recently, efforts were introduced to consolidate school networks in line with demographic trends; it remains to be seen if and how these changes will be implemented.

7.1.6. Updating and modernising curricula to impart relevant knowledge and skills

Serbia has advanced curricula reforms, but more efforts are needed to support teachers and schools in adapting these curricula to their specific needs. Serbia has introduced a national qualification framework that encompasses adoption of new competency-based curricula across all levels of education. Compared to practices in OECD countries, however, the new curriculum is overloaded and very prescriptive. This severely limits teachers' options to adapt their practices to the specific learning needs of students. This challenge is compounded by the limited guidance from the central government as well as limited capacities of schools to adapt the curricula to their own needs (Maghnouj et al., 2019[6]). In addition, no guidelines exist to describe students' learning progression in a cycle. Based on external school evaluation results, the use of assessment to inform learning and adapt teaching to student needs is weak in almost half of basic education schools and two-thirds of upper-secondary schools (Petrović, Nedeljković and Nikolić, 2017[19]).

Choice of studies could be better aligned with labour market needs, and curricula of vocational schools and tertiary education focused more on practical skills. It is encouraging to see that close to 30% (28% in 2019) of all recent tertiary education graduates in Serbia studied science, technology, engineering and mathematics (STEM) subjects, compared with 15% (on average) in OECD countries in 2015 (UNESCO, 2020[20]; OECD, 2018[21]).[3] However, higher education institutions have traditional methods of teaching that do not necessarily encourage creative and critical thinking and collaboration (Maghnouj et al., 2019[6]) and little opportunity exists to gain practical experience (e.g. through internships while studying) (European Commission, 2020[22]). In 2017, 29.3% of companies indicated problems with finding new workers, mostly due to skills shortages, which extend across most sectors of the economy. Significant shares of companies cited the problem across the following sectors: manufacturing (38.6%); construction (37.7%); mining (33.3%); accommodation and food production (32.2%); information and communications (32.1%); and transport and storage (29.4%) (Reyes and Nguyen, 2020[3]). Interestingly, apart from the information and communications sector, which gives highest value to technical skills of employees, all sectors interviewed in the Skills Measurement Employer Survey (part of Serbia's Skills Toward Employment and Productivity [STEP] programme) placed a higher value on socio-emotional skills, such as reliability and resilience. The establishment of the Agency for Qualifications and Sector Skills

Councils in 2018 was a positive step towards reducing the mismatch between skills required in the labour market and education outcomes (European Commission, 2020[23]).

7.1.7. Improving the quality and relevance of VET is necessary to build a qualified workforce

As the most popular education track in Serbia, VET needs to be better equipped and financed. With over 70% of secondary school students choosing this path, VET plays a significant role in the overall education system in Serbia. However, many VET profiles are outdated and most programmes are found to be marginally relevant to labour market needs due to the largely theoretical nature of VET in Serbia and limited practical training (World Bank, 2019[10]). This reflects financing constraints: relatively low spending per student on secondary education in Serbia (Section 7.1.5) has particularly strong impacts on VET, which in OECD economies tends to be more resource-intensive due to higher spending requirements on technology and learning equipment.

Improving the subject skills of teachers and scaling up dual VET programmes could improve alignment between VET outcomes and labour market needs. More than 20% of VET teachers in Serbia have no work experience in the occupations they teach, a factor that contributes to low outcomes (ETF, 2018[24]). However, this is an area where some progress has been made. Thanks to donor support, dual VET has been introduced in a number of VET profiles, accompanied by measures to boost capacities of schools and relevant partner companies to provide necessary training for students in these VET programmes. Preliminary results from rigorous impact evaluations indicate that students who attended such programmes rated more highly the education they obtained and were able to obtain better jobs than comparable peers within 6 months after graduation. However about 2% of the student population (5.3% of all VET students) attended a dual VET programme and about one-quarter of all schools offered at least one dual profile.

7.1.8. Systematically employing digital technologies in the classroom can significantly boost education outcomes

Improving access to digital technologies in the classroom would be an important step forward in boosting the digital skills of students in Serbia. According to data from PISA, there are just over 0.3 computers per pupil in Serbian schools compared with over 0.8 in OECD countries (Figure 2.10 – Panel A of Chapter 2). Internet access is also an issue: 84% of school computers in Serbia are connected against nearly all in OECD countries (Figure 2.10 – Panel B of Chapter 2). Based on surveys of school principals, only about 40-50% of students in Serbia have adequate access to digital technology (e.g. devices, software, online learning support platform) in the classroom (OECD, 2020[25]).

Addressing digital skills among teachers should complement the efforts. In Serbia about 56% of teachers report having a need for professional development in ICT-related fields (ETF, 2018[26]; ETF, 2018[27]; ETF, 2017[28]). Even in the European Union, only one-quarter or less of students are taught by teachers who feel confident using digital technology (World Bank, 2020[29]). Serbia has taken an important action by including a specific element of digital competencies in the ITE curriculum (World Bank, 2020[29]).

7.2. Boosting competencies in Serbia beyond formal education

7.2.1. Increasing access to and the quality of adult education will be essential for creating a nimble workforce that can adapt to changes in the labour market

Low educational attainments in the Serbian adult population show the need to equip them with competencies by scaling up adult learning. While Serbia has the highest share of adults who participate in adult learning among the regional economies, it still lags behind the EU benchmarks (Figure 2.16 of Chapter 2). In 2016, 21% of adults aged 25-64 years participated in some form of formal and/or non-formal education against 48.5% of adults in the European Union. Access to adult learning is particularly limited for low-skilled individuals (only 0.5% of whom attended training) and the unemployed (9.5% of whom attended training) (ETF, 2020[30]).

Adult education and training activities need a co-ordinated strategy. In contrast to initial vocational education, continuing vocational training (CVT) lacks a strategic framework and priorities. As such, it has been recommended that Serbia integrates lifelong learning into its Serbia Education Strategy 2030. At present, data on CVT and adult education participation and effectiveness evaluations are limited (ETF, 2020[30]). On a positive note, the Law on Adult Education 2013 and the Law on National Qualifications Framework 2018 regulate the accreditation of non-formal courses and validation of competencies acquired in informal learning.

7.2.2. Leveraging on foreign direct investment can help to boost the competencies of the workforce

Over the years, Serbia has made considerable efforts to attract foreign direct investment (FDI), showing a great scope for spillovers of knowledge and competencies to local businesses and communities. Serbia currently hosts the greatest number of large enterprises in the Western Balkan region and has been a global leader in greenfield FDI attraction in recent years – most of which went into export-oriented manufacturing, including the automotive industry, food and beverage processing, textiles and electronics (Development Agency of Serbia, 2020[31]). Next to North Macedonia, Serbia was among the first countries in the region to establish special economic zones, which have managed to attract significant new investment in manufacturing, particularly in the automotive sector. A notable investor was Fiat Chrysler Automobiles with a USD 1 billion investment in 2012 (OECD, 2017[32]). The FDI stock in Serbia reached USD 48.2 billion in 2019, almost equal to the size of its economy (UNCTAD, 2021[33]).

Mixed evidence of spillovers on domestic enterprises shows a need for targeted support for small and low-tech enterprises to leverage more on foreign investors. Firms in high-tech industries benefit more from backward FDI spillovers; there was no such effect for small firms in low-tech industries. Firms in the transport manufacturing industry, which have attracted significant FDI, also did not report any significant FDI spillovers from foreign firms in their industry (Brussevich and Tan, 2018[34]). In the case of FAS in Kragujevac, for example, Fiat-Chrysler brought 21 suppliers to Serbia, 7 of which are located within identified special economic zones (SEZs). None of the previous local suppliers of Zastava (the former Serbian car manufacturer) met the quality standards needed to supply parts to FAS, with the exception of a car-jack producer (OECD, 2017[32]). This points to a need to support especially domestic small and medium low-tech firms, including through entrepreneurship and innovation programmes that can boost their competencies and capacities (Brussevich and Tan, 2018[34]).

Co-operation on training exists between some companies (located mainly in the SEZs) and educational institutions, but could be further expanded given the relatively high presence of foreign investors in Serbia. The steel chain producer Rosa Catena (located in the SEZ of Smederevo) started sending their employees to trainings abroad. Other companies, such as Fiat-Chrysler, have built their own training facilities. Continental and Calzedonia (both located in the SEZ of Subotica) and one

secondary vocational school signed a co-operation agreement to establish permanent work-based learning components in the local VET school. A similar co-operation (in the SEZ of Pirot) led to a new training programme on freight forwarding. The government should support and facilitate these early-stage co-operation efforts (Bartlett, Krasniqi and Ahmetbašić, 2019[35]).

7.2.3. Fostering closer linkages with the diaspora can also be a source of new competencies

The diaspora and its members can be an important source of knowledge transfer for Serbia. Serbia has one the biggest diasporas in the Western Balkans: as many as 4-5 million Serbians could be living abroad (World Bank, 2019[36]). Based on the OECD DIOC database (OECD, 2016[37]), among 258 000 persons born in Serbia and living and working in the OECD countries, 68.9% are employed in medium and highly qualified professions such as: plant and machine operators and assemblers; technicians and associate professionals; professionals; services and sales workers; and craft and related trades workers (Figure 2.18 of Chapter 2). This indicates a great potential for knowledge transfer from the diaspora. Serbian diaspora also tend to maintain familial connections to their home country, visible through the large volumes of remittances. Although the share of remittances in GDP has dropped to 7.3% (likely due to the COVID-19 pandemic), the inflow of remittances over the last ten years was about 8% of GDP, without major fluctuations (World Bank, 2021[17]).

Better leveraging knowledge and competencies accumulated abroad requires innovative programmes. Estimates of the former Ministry of Religion and Diaspora (2012) show that, before the 2008 economic crisis, the Serbian diaspora invested about EUR 550 million in Serbia, employing about 25 000 people. Following the crisis, these figures dropped, reflecting an unfavourable investment climate, a relatively unstable economic situation and complicated administrative procedures in Serbia (Grecic, 2016[38]). Some recent projects and initiatives aim to create better links between Serbia and its diaspora. The World Bank currently has a project, Accelerating Innovation and Growth Entrepreneurship Project for Serbia, with a diaspora facility subcomponent, aiming to support establishment of a Serbian Diaspora Facility (SDF) to finance technical assistance and provision of grants to scientists, researchers, entrepreneurs and Serbian diaspora to transfer knowledge and skills from the diaspora community back to Serbia (World Bank, 2021[39]). In collaboration with the Government of Serbia and other stakeholders, the International Centre for Migration Policy Development is implementing a project (*Link Up! Serbia II*) to support transnational entrepreneurial activities with and through the Serbian diaspora in Austria, Switzerland and Germany (International Centre for Migration Policy Development, 2021[40]).

7.3. Indicators to monitor the overall policy progress in Serbia

To monitor policy progress in implementing teacher training and other policy priorities in Serbia, the OECD suggests a set of key indicators, including values for Serbia and benchmark countries (either the OECD or the EU average, based on data availability). Table 7.2 provides the differences between the benchmark value and the value for Serbia.

Table 7.2. Indicators to monitor progress in implementing policy in Serbia

2018, unless otherwise specified

Indicators	Serbia	Benchmark value
Children (aged 3-5) attending a preschool programme (%)	65.3****	81.7****
Mean PISA science score	440	489
Students attaining at least Level 2 proficiency in reading (%)	62	77
Individuals who have basic or above basic digital skills (%)	46*	56*
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	16.2****	15.5****
Teachers having at least a master's degree in advantaged schools (%)	-	47.2
Teachers having at least a master's degree in disadvantaged schools (%)	-	40
Schools where principals agree or strongly agree that an effective online support platform is available (%)	40	54
Public spending on education (% of GDP)	3.6*	4.9
Adult (aged 25-64) participation in education and training, formal (%)	3***	5.8***
Adult (aged 25-64) participation in education and training, informal (%)	18.2***	42.7***

Note: *2019, **2017, ***2016, ****2020. The benchmark values are based on the current OECD averages, except for *Individuals who have basic or above basic digital skills* and for *Adult participation in education and training*, where the benchmark is the EU average.
Source: OECD (2021[41]), PISA 2018 Database, https://www.oecd.org/pisa/data/; World Bank (2021[17]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ILO (2021[42]), *ILOStat* (database), https://ilostat.ilo.org/data/; Eurostat (2021[43]), Database - Skills-related statistics, https://ec.europa.eu/eurostat/web/skills/data/database.

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Notes

[1] Due to the outbreak of the COVID-19 pandemic, the foresight workshop was not held in Bosnia and Herzegovina.

[2] The total duration of compulsory education in Serbia is nine years. Children enter compulsory education at age 5.5 and leave it at age 14.5.

[3] Some 43% of Serbian STEM graduates are women.

Part II Social cohesion

8 Fostering social cohesion in the Western Balkans

This chapter presents key issues hampering social cohesion in the economies of the Western Balkans and puts forward policy recommendations to build more cohesive societies. Improved labour market outcomes and social protection are two complementary, mutually reinforcing ways of fostering social cohesion. Over the past decade, employment has grown in the region; however, unemployment and especially long-term unemployment remain high, and labour market participation is still low. Enhancing active labour market policies and supporting the integration of women and citizens from vulnerable groups are necessary steps to ensure all citizens can contribute to and benefit from social progress. While the Western Balkan economies have created social protection systems to provide necessary safety nets, a large share of citizens continue to face economic hardship and exclusion. More inclusive and fairer social protection systems and integrated social services, are needed to promote equal opportunities and fight exclusion and marginalisation.

A socially cohesive society is one that fosters the ability and willingness of its members to undertake collective action to improve societal well-being. To achieve a socially cohesive society, it is important to offer its members the opportunity to participate, to create a sense of belonging and promote trust among people, and to fight against exclusion and marginalisation (OECD, 2011[1]). Societies with low social cohesion suffer from disenfranchisement, making collective action more difficult. In turn, this limits the capacity of society to put in place means to share the benefits of progress. In good times, low social cohesion leads to increased inequality; in bad times, it can lead to violent manifestations of dissent. Actively fostering social cohesion can create a virtuous circle in which citizens feel they have opportunities to lead decent lives and to fulfil their personal objectives, and that they belong to a society that builds trust and improves the scope for collective action.

Investing in social cohesion is beneficial for citizens' well-being and can support inclusive growth through multiple channels. Economies with more cohesive societies tend to have stronger institutions, which in turn support economic growth (Easterly, Ritzen and Woolcock, 2006[2]). The policies that support social cohesion, including social protection and labour policies, can kickstart a virtuous cycle by increasing citizen participation in society and the economy, fostering inclusive growth and opening fiscal and policy space for further improvements in inclusive institutions, in particular democratic governance institutions (Sommer, 2019[3]; OECD, 2011[1]). Available evidence supports key channels through which social protection policies in particular foster inclusive growth: social assistance contributes to increasing schooling among the poorest segments of the population, and social insurance reduces incentives for migration, especially among high-skilled workers (OECD, 2019[4]).

The Initial Assessment of this Multi-dimensional Review of the Western Balkans identified supporting social cohesion as a strategic priority for the region (OECD, 2021[5]). At present, several factors undermine such cohesion in the region. Underperforming labour markets leave many without attractive opportunities and strain the ability of citizens to be mutually supportive. Lack of participation in formal labour markets renders social protection systems, which are mostly contribution-based, unsustainable and under-dimensioned. Large inequalities between sub-regions and between ethnic groups add to the complexity. Local governments should be on the frontline in addressing these challenges, yet they often lack the capabilities in terms of organisation, incentives and funding.

Elements making up social cohesion feature high on the list of aspirations for the future in the region. The key elements include good governance, effective public services, rule of law and justice, decentralisation, quality health services, social protection and decent jobs. All ranked highly in four aspirational foresight workshops held in the region as part of the Initial Assessment of this review (OECD, 2021[5]). Having gathered a range of participants from various ministries and agencies, the private sector, academia and civil society, the workshops helped them to develop vision statements based on desired narratives of the lives of future citizens.

To provide suggestions for strengthening social cohesion in the Western Balkans, this report builds on an extensive peer-learning process with practitioners and expert assessment. Building on the Governmental Learning Spiral methodology (Blindenbacher and Nashat, 2010[6]), two peer-learning events brought together experts and practitioners from across the region and beyond to prioritise among challenges and solutions, develop ideas for action and learn from each other (Box 8.1).

Labour market policies and social protection constitute two complementary policy areas to foster social cohesion, as has become very clear during the COVID-19 pandemic. The complementarity stems from the ways in which the two policy areas interact and reinforce each other. Employment opportunities provide people income and prospects for personal development; in turn, it reduces financial pressures on the social protection system, making "room" to improve its quality. Social protection is vital in that it reduces poverty and inequalities, and serves as a safety net and support system. Co-ordinated policy efforts that create adequate employment opportunities while also establishing an effective and fair social protection system may set the stage for a cohesive society: i.e. one that offers opportunities to participate,

fosters a sense of belonging, promotes trust among people, and fights against exclusion and marginalisation.

Across three sections, this chapter investigates the state of affairs for key elements of social cohesion in the economies of the Western Balkans and explores policy recommendations to improve them. Section 8.1 provides overarching analysis of key development outcomes across the regional labour markets and social protection systems. Sections 8.2 and 8.3 analyse policy challenges, and provide suggestions that may apply to all regional economies, albeit to different degrees. To support learning from others, whenever possible, policy suggestions are complemented with country examples. The regional outcomes of the peer-learning workshops constitute the key analytical basis for the present report and guide the policy analysis and suggestions in Sections 8.2 and 8.3 (Box 8.1).

Box 8.1. Multi-dimensional Reviews of the Western Balkans: From Analysis to Action through peer-learning

Peer-learning, as implemented following the Governmental Learning Spiral methodology was a key process in the Multi-dimensional Review project. With three overarching aims – to identify central issues hampering social cohesion at the regional and economy levels; to suggest ideas for future policy actions at the economy-level; and to exchange policy experiences – the process brought together key stakeholders from the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia). The peer-learning process on social cohesion comprised two rounds of workshops (Workshop One, 18-19 February 2021 and Workshop Two, 22 April 2021), each attended by 29 experts (about five per economy) representing various societal perspectives, including government, public employment agencies, civil society, academia and businesses.

Workshop One started with a regional plenary to select the most important and most urgent issues related to social cohesion in the region (Table 8.1). Of 15 issues raised, activation of long-term users of social benefits received the highest number of votes. This chapter and those following provide deeper analysis of the selected issues and policy suggestions clustered in two themes: supporting people to find opportunities in the labour market; and building effective, inclusive and financially sustainable social protection systems.

Following discussion at the regional level during the Workshop One, participants worked in economy-level groups to start developing ideas for action. These activities became the basis for the Workshop Two. During the two workshops, participants from each economy met to further specify actions, processes and requirements pertaining to their action plans.

In Workshop Two, participants from the five economies reconvened to present progress in developing action plans and to pose to other participants the most pressing questions in areas where they lack policy experience. Following the peer-learning exchange at the regional level, participants reassembled in their economy groups to suggest monitoring indicators relevant for their respective action plans.

Table 8.1. Results from voting on the most important and urgent issues

	Issues	Votes
1	Activation of long-term users of social benefits	******
2	Employment of women	*****
3	Gaps in design and coverage of active labour market policies	****
4	High quality jobs	***
5	In-work poverty	***
6	Limited access to social insurance rights and benefits	***
7	Access of marginalised groups to social services	***
8	Employment programmes with focus on the most vulnerable	***
9	Matching education and the labour market	**
10	Employment of people with disabilities	**
11	Community integrated social care services	**
12	Assessment of adequacy of social assistance benefits	**
13	Improving financing of local social protection services	**
14	Unbalanced regional development	**
15	Youth employment and education	*

Source: OECD peer-learning workshops.

Source: Blindenbacher and Rielaender (forthcoming[7]), *How Learning in Politics Can Work*; Blindenbacher and Nashat (2010[6]), The Black Box of Governmental Learning The Learning Spiral - A Concept to Organize Learning in Governments, World Bank Group, Washington, DC, https://doi.org/10.1596/978-0-8213-8453-4.

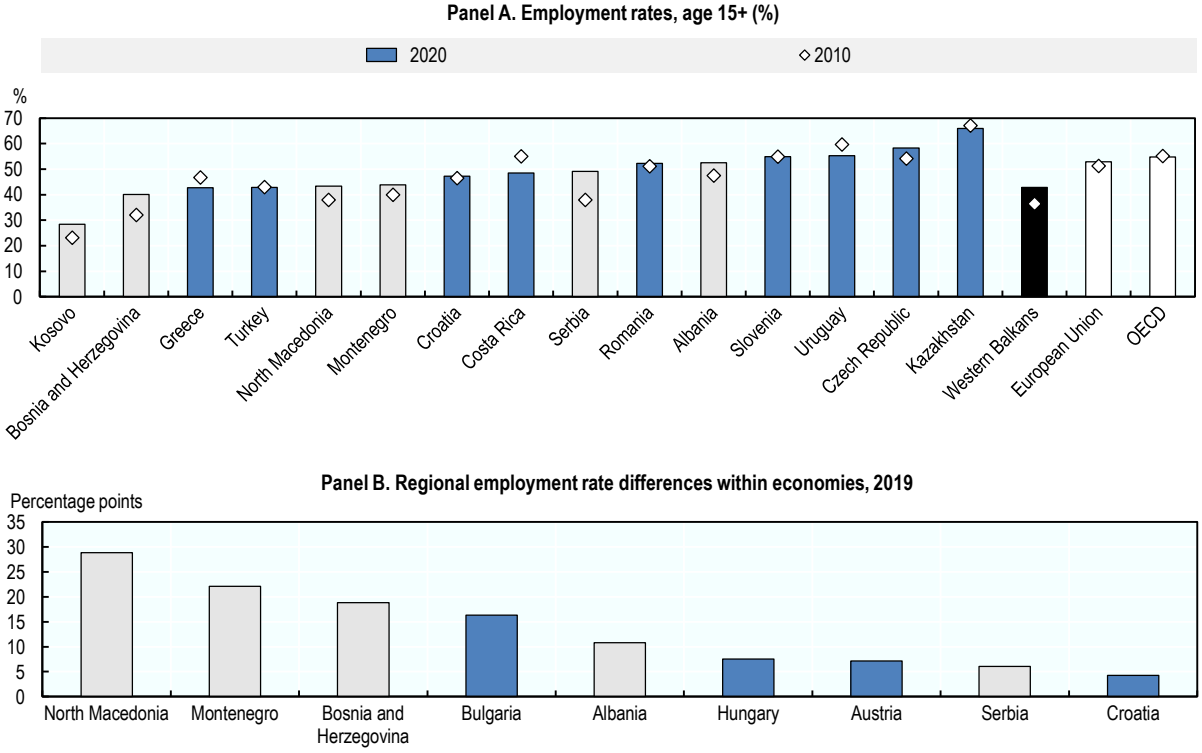
8.1. Social cohesion developments in the Western Balkans: Progress and challenges

8.1.1. Labour market outcomes have improved but employment opportunities remain inadequate for many

Job creation remains inadequate. Employment rates have increased over the past decades in most Western Balkan economies; however, they remain comparatively low (Figure 8.1 – Panel A). Some economies (Bosnia and Herzegovina, Montenegro, and North Macedonia) show significant differences in employment outcomes across territories, further hampering social cohesion (Figure 8.1 – Panel B). To date, a rather slow structural transformation and economic diversification has not led to job creation. Western Balkan economies struggle with skills gaps and mismatches as well as low productivity. In this context, wage increases in recent years have contributed to weakening labour cost-competitiveness, as they do not reflect growth in productivity (OECD, 2021[5]).

Figure 8.1. Employment performance has improved but employment differences within economies continue to hamper social cohesion

Employment rates, age 15+ (%) (Panel A), and regional employment rates differences within economies (percentage points), 2019 (Panel B)



Notes: Panel B - Differences in employment rates are calculated as a difference between highest- and lowest-performing areas within each economy. Areas are based on NUTS2 classification. In Bosnia and Herzegovina, the areas reflect three entities: Republika Srpska (RS), Federation of Bosnia and Herzegovina (FBiH), and Brcko District.

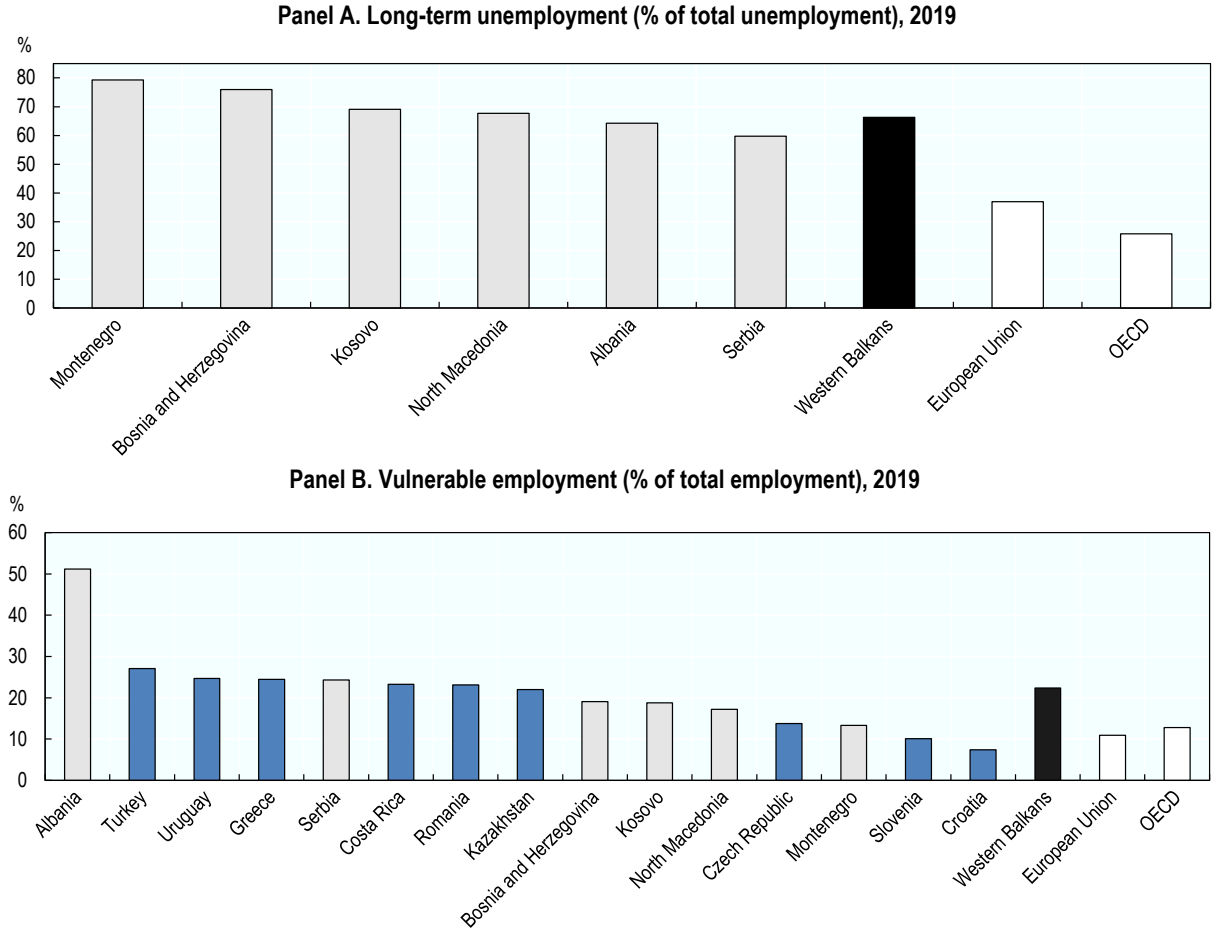
Source: World Bank (2021[8]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators; INSTAT (2021[9]), Statistical database (database), http://databaza.instat.gov.al/pxweb/en/DST/START__TP__LFS__LFSV/NewLFSY014/; Kosovo Agency of Statistics (2021[10]), ASK Data (database), https://ask.rks-gov.net/en/kosovo-agency-of-statistics; World Bank/WIIW (2021[11]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html.

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Long-term unemployment and vulnerable employment are of particular concern for social cohesion. Many Western Balkan citizens find themselves unemployed over long time periods, leading to a potential loss of productive human capital and disconnection from labour markets. In 2019, up to 66.3% of the unemployed had been so for more than one year (Figure 8.2 – Panel A). At 52.9%, the rate of long-term unemployment among the unemployed young (15-24 years) is almost as high, in sharp contrast to a share of 11.3% across the OECD (World Bank/WIIW, 2021[11]; OECD, 2021[12]). Vulnerable employment, defined as the share of contributing family workers and own-account workers in total employment, is also very high at 22.4% in 2019, with the highest rate being in Albania at 51.2% (Figure 8.2 – Panel B).

Figure 8.2. Many people are long-term unemployed or in vulnerable employment

Long-term unemployment (% of total unemployment), 2019 (Panel A), and vulnerable employment (% of total employment), 2019 (Panel B)



Source: Eurostat (2021[13]), Data Explorer (database), https://ec.europa.eu/eurostat/data/database; OECD (2021[12]), OECD Statistics (database), https://stats.oecd.org/; World Bank/WIIW (2021[11]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html; World Bank (2021[8]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators.

StatLink https://stat.link/8bzlur

Long-term unemployment affects persons across society, with particularly high shares among older and low-skilled people. Long-term unemployment among those unemployed aged 55-64 years is striking – averaging 81.3% across the region (Table 8.2). The lack of employment opportunities at this age implies that unemployed persons are likely to exit the labour market and live on their savings or welfare support. Indeed, at 46.7% in 2019, employment rates for older adults are 21 percentage points lower than for prime-age adults (67.7%). This situation can create significant pressure on welfare systems and represents an important loss of human capital, especially given the accumulated skills of older persons. Before the COVID-19 pandemic, 648 000 workers – across all skill levels – were long-term unemployed in the region (World Bank/WIIW, 2021[11]), Rates are particularly high among the unemployed with low skills. In Bosnia and Herzegovina, as many as 88% of unemployed persons with low skills are in long-term unemployment. The high share of long-term unemployment among medium and high skill levels is also a concern, especially given the level of investment in education.

Table 8.2. Long-term unemployment affects many unemployed, across ages and skill levels

Long-term unemployment rate (% of unemployed)

	Age			Education		
	15-24	25-54	55-64	Low (levels 0-2)	Medium (levels 3-4)	High (levels 5-8)
Albania	49.1	72.6	82.6	73.0	66.9	59.9
Bosnia and Herzegovina	68.7	85.4	93.4	88.0	82.9	72.5
Kosovo	44.7	62.9	82.3	76.8	53.2	54.4
Montenegro	50.3	80.4	89.5	86.4	76.3	62.8
North Macedonia	64.4	75.0	89.3	77.4	75.2	70.4
Serbia	43.4	61.1	71.3	64.2	58.9	57.6
Western Balkans	52.7	69.8	81.3	74.0	67.0	61.8
Austria	13.9	30.1	51.2	32.9	28.3	24.1
Bulgaria	46.5	58.5	64.9	N/A	N/A	N/A
Croatia	24.2	44.6	50.3	N/A	N/A	N/A
Hungary	25.3	40.5	50.0	38.9	40.2	29.0

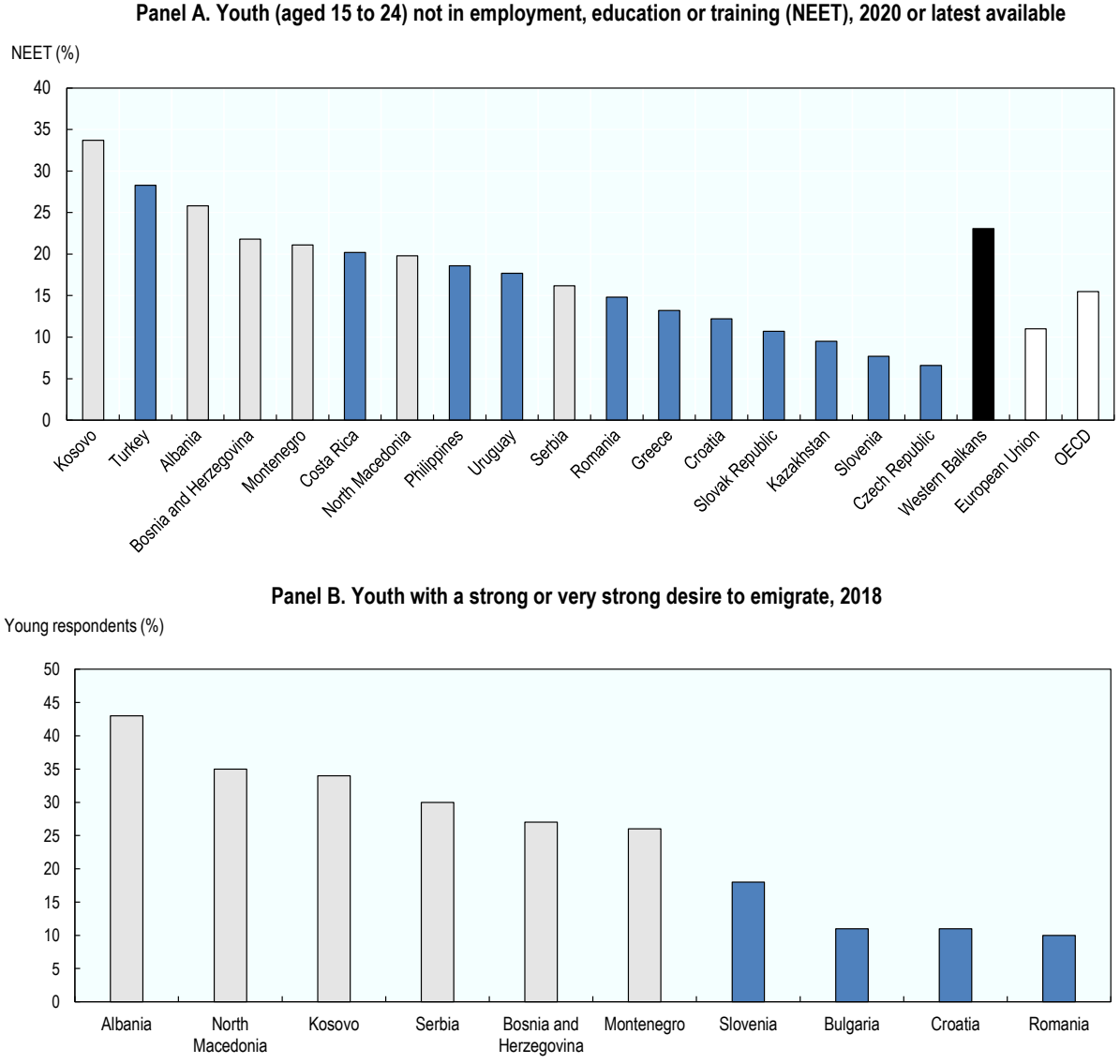
Note: According to the International Standard Classification of Education, levels 0-2 correspond to early childhood, primary and lower-secondary education; levels 3-4 correspond to upper-secondary, post-secondary and short-cycle tertiary education; and levels 5-8 correspond to tertiary education and above.
Source: World Bank/WIIW (2021[11]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html.

Youth in the region are not well integrated in education and labour markets, leading to brain drain. About one in four people aged 15 to 24 does not participate in education, training or employment in the Western Balkans (Figure 8.3 – Panel A). Higher standards of living, better employment opportunities and higher salaries abroad are prompting the youth to migrate (Lavrič, 2021[14]). Recent estimates (Figure 8.3 – Panel B) show about one-third (33%) of young people across the region expressing a strong or very strong desire to emigrate, ranging from 26% in Montenegro to 43% in Albania.

Looming demographic changes are expected to exacerbate human capital deficits. Low fertility and high emigration rates (World Bank, 2021[8]) are expected to intensify demographic pressures and weaken long-term growth prospects throughout the region. These factors will drive the old age dependency ratio (the share of population aged 65+ relative to population aged 20 to 64) from 26.8% in 2020 to 47.3% in 2050 (United Nations, 2020[15]).

Figure 8.3. High youth unemployment fuels desire to migrate

Youth (aged 15 to 24) not in employment, education or training (NEET), 2020 or latest available year (Panel A), and youth with a strong or very strong desire to migrate (%), 2018 (Panel B)



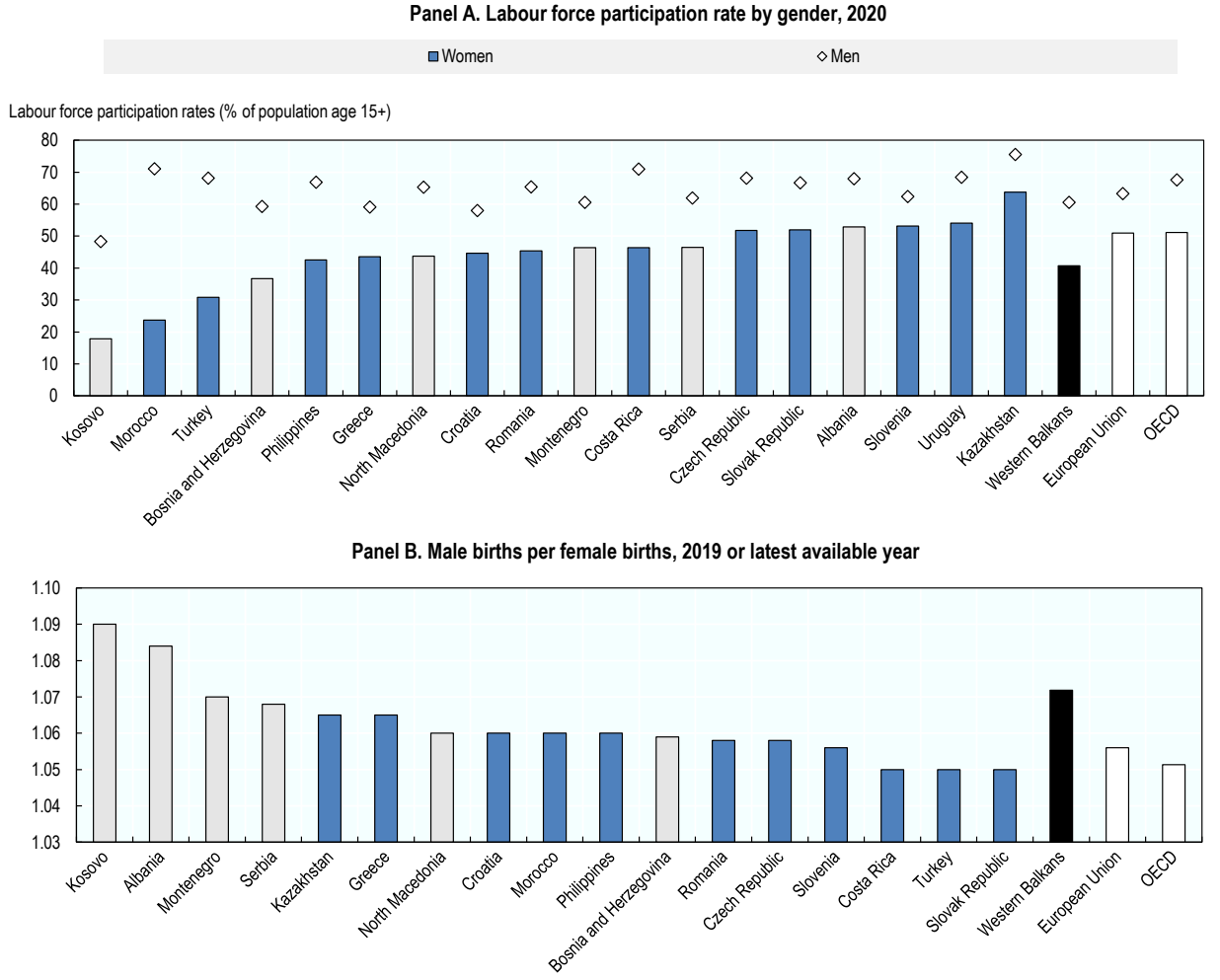
Source: Panel A - ILO (2021[16]), *ILOStat* (database), https://ilostat.ilo.org/data/; Panel B - Authors elaboration from Lavrič (2021[14]) based on Friedrich-Ebert-Stiftung (2021[17]) data.

StatLink https://stat.link/zdvln6

Women often lack equal opportunities to participate in paid work due to traditional norms, lack of care services and other barriers. While variations exist across Western Balkan economies, the regional gender gap in labour force participation (19.9 percentage points) is significantly higher than averages in the OECD (16.5) and the European Union (12.4) (Figure 8.4). There was a drop in labour force participation in 2020 in comparison to 2018 for both men and women, driven by the COVID-19 pandemic.

Figure 8.4. Selected indicators underscore that Western Balkan economies have not yet achieved gender equality

Labour force participation rate by gender, 2020 (Panel A), and male births per female births, 2019 or latest available year (Panel B)



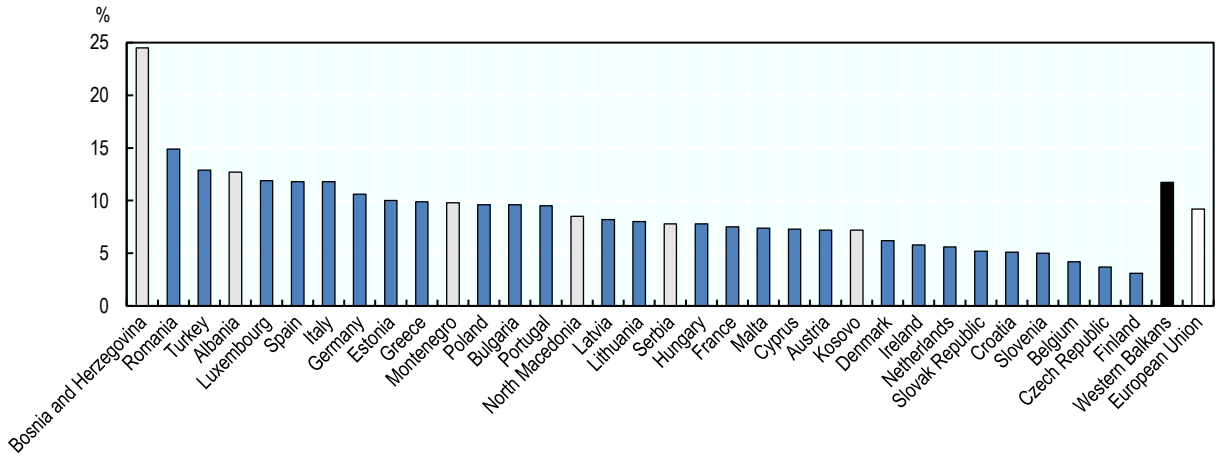
Note: Panel B. Data for Kosovo refer to 2014.
Source: UNFPA/World Vision (2012[18]), *Sex Imbalances at Birth in Albania*, www.unfpa.org/sites/default/files/resource-pdf/UNFPA_report_Albania2012.pdf; World Bank (2021[8]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators.

StatLink https://stat.link/3zin5r

Employment does not guarantee well-being throughout the region. In-work poverty, the share of persons who declared to be at work (employed or self-employed) and who are at risk of poverty, is particularly high among workers in Bosnia and Herzegovina and Albania (Figure 8.5), suggesting that many people work but are unable to secure sufficient work or earn an adequate hourly rate. High in-work poverty rates affect self-employed and part-time workers in particular, which suggests that a low level of working time is a significant contributor to in-work poverty (Jorgoni, 2019[19]; Obradović, Jusić and Oruč, 2019[20]; Gerovska Mitev, 2019[21]; Haxhikadrija, Mustafa and Loxha, 2019[22]). Supporting the working poor may improve the number of quality jobs and reduce incentives for informal activities.

Figure 8.5. In-work poverty is relatively high in some economies

In-work at-risk-of-poverty rate (%), 2020



Notes: Share of people who are employed but have an equivalised disposable income below the at-risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers). Data for Bosnia and Herzegovina are for 2015; data for Kosovo are for 2018.

Source: Eurostat (2021[13]), *Data Explorer* (database), https://ec.europa.eu/eurostat/data/database; Obradović, Jusić and Oruč (2019[20]).

StatLink https://stat.link/4wuv8o

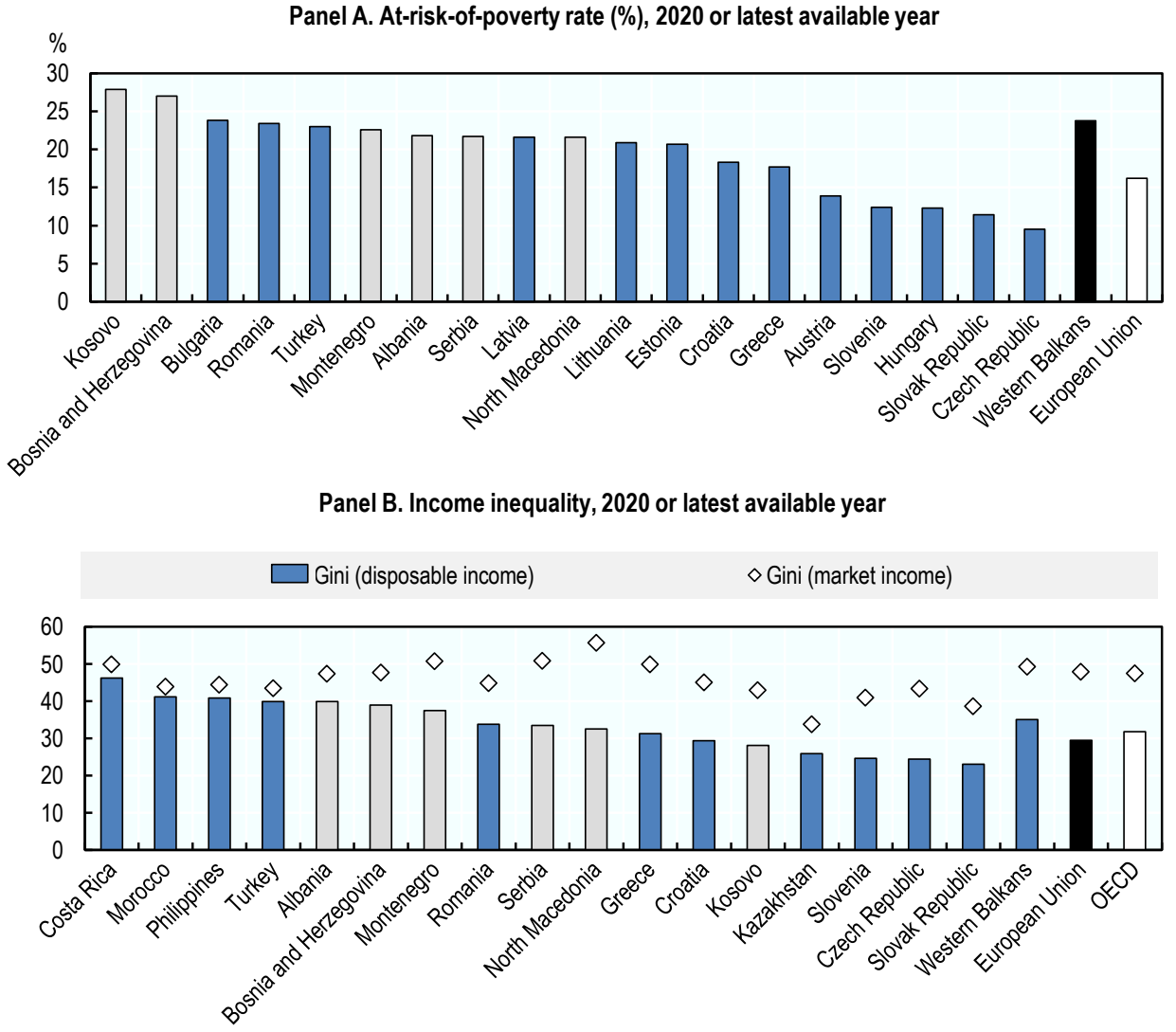
8.1.2. Social protection systems in the Western Balkans could further reduce poverty, tackle inequalities and address discrimination

Despite positive economic performance in recent decades, many people in the Western Balkans still face a high risk of poverty. The share of people living at risk of poverty – defined as having an equivalised[1] income below 60% of the national median income after social transfers – was 23.8% in 2020 (Figure 8.6 – Panel A). Relative income poverty, measured as at risk of poverty, particularly affects people living in rural areas, those with only primary education and the unemployed (Eurostat, 2021[13]).

Income inequality varies significantly across the region, depending on the effectiveness of social policies. Differences in market and income inequality (based on disposable income) reveal variations in both the effectiveness of tax-and-transfer systems in buffering inequalities and the underlying economic structures that constitute higher levels of inequality in some countries than in others. Overall post-redistribution income inequality (inequality based on disposable income) stands at 35.1 (as measured by the Gini index) in the region, compared with 29.5 in the European Union and 31.8 in the OECD (Figure 8.6 – Panel B).

Figure 8.6. Many people continue to live in poverty and relatively high inequalities persist

At-risk-of-poverty rate (%), 2020 or latest available year (Panel A), and income inequality (Gini index), 2020 or latest available year (Panel B)



Note: The at-risk-of-poverty rate is the share of persons with an equalised income below 60% of the national median income after social transfers. Panel A - The latest available year is 2015 for Bosnia and Herzegovina, and 2018 for Kosovo. Panel B - The latest available year is 2014 for Bosnia and Herzegovina, Montenegro and Morocco, 2015 for the Philippines, 2016 for North Macedonia and Slovak Republic, 2017 for Croatia, Czech Republic, Greece, Kosovo, Romania, Serbia and Slovenia, and 2018 for Albania, Costa Rica, Kazakhstan and Turkey.
Source: Eurostat (2021[13]), *Data Explorer* (database), https://ec.europa.eu/eurostat/data/database; ESPN (2019[20]), *In-work poverty in Bosnia and Herzegovina,* https://ec.europa.eu/social/BlobServlet?docId=21121&langId=en; Solt (2019[23]), *The Standardized World Income Inequality Database*, Versions 8-9 (dataset), https://doi.org/10.7910/DVN/LM4OWF.

StatLink https://stat.link/s8hgmr

Territorial inequalities in economic development and well-being exist in all economies in the region. One example of this is in Albania, where job opportunities are concentrated in Tirana, accounting for about 52% of all jobs. Social services, which are the responsibility of the local government (as in most regional economies), are either underdeveloped or missing in many parts of Albania, due to poor capacities and local authorities' lack of experience. In Serbia, poverty rates in the Southern and Eastern Serbia

(Region Južne i Istočne Srbije) are three times higher than in the Belgrade Region (Beogradski Region). Access to infrastructure, such as public water supply, remains an issue in rural areas in most economies.

Many minority groups, such as Roma and lesbian, gay, bisexual, transgender and intersex (LGBTI) people, face adverse well-being outcomes, also due to discrimination. Negative stereotypes, violence or denial of access to public services and jobs leave these groups largely marginalised. In all economies, Roma have very low health coverage, lower employment rates and poor access to education, public services and infrastructure (e.g. piped water and electricity), particularly in rural areas. Across economies, up to half the population believes homosexuality is a sickness and LGBTI communities often report personal experiences of harassment. Key institutional building blocks, such as empowered equity bodies can help efforts to address discrimination. However, when it comes to specific policies, the evidence suggests that closely targeting policies to the specific barriers faced by women and minorities is important for their success (OECD, 2020[24]).

Rapid population ageing will be a major challenge for achieving further increases in living standards and ensuring the financial sustainability of public social expenditure. Across the region, population ageing is already putting considerable pressure on the financial sustainability of social security systems, especially on pension expenditures and medical expenses, which tend to rise steeply at older ages. This is coupled with the rising challenge of providing quality of life and care for the growing elderly population.

8.2. Suggestions for helping people find opportunities in the labour market in the Western Balkans

Creating employment opportunities is essential for fostering social cohesion in the Western Balkans. This section analyses key regional labour market issues put forward by the peer-learning participants as well as policy suggestions based on international practice. The peer-learning participants selected low labour market integration of long-term unemployed and social welfare beneficiaries as a key issue in the region, noting that it leads to loss of skills and motivation for people while also representing a large burden on social protection systems. Lack of equal conditions for women, Roma and people with disabilities to participate in employment was identified as another major issue that hampers social cohesion and further reduces human capital, with potential negative impacts on growth. Sections 8.2.1 - 8.2.3 shed more light on these issues and suggest options for going forward.

8.2.1. Making active labour market policies effective

Active labour market policies (ALMPs) play an important role in connecting people with jobs and making them job-ready[2]. The main goal of ALMPs is to increase employment opportunities for job seekers and to improve matching between jobs (vacancies) and workers (i.e. the unemployed) (European Commission, 2017[25]). To be successful, ALMPs need to give people motivation and incentives to seek employment while also increasing their employability, including by adapting their skills to current and future demand. In parallel, ALMPs should seek to expand employment opportunities. Various interventions can be included in ALMPs (European Commission, 2018[26]), which are broadly split into two categories: labour market services (Category 1) and labour market measures (Categories 2-7).[3] Labour market services cover all services and activities of the public employment service (PES), together with any other publicly funded services for job seekers. Labour market measures cover interventions that aim to provide the unemployed or people at risk of unemployment with new skills or work experience in order to improve their employability, subsidise employers to create new jobs and/or take on unemployed people or provide placement in public jobs, and interventions supporting self-employment.

Unemployment benefits are an important complement to ALMPs but their development is uneven across the region. Unemployment benefits act as automatic stabiliser at the aggregate level by supporting job seekers in maintaining their living standards during unemployment and in seeking better job matches. To ensure complementarity, both unemployment benefits and ALMPs need to be well designed, for example by including job-seeking obligations and links to ALMP participation (OECD, 2018[27]). In Albania and Montenegro, unemployment benefits are very low, set at less than half the minimum wage. In Serbia and North Macedonia, benefits are set at 50% of previous average wages, which is in line with several OECD countries. In most economies in the region, benefits are available for 12 months; in Serbia and in Bosnia and Herzegovina (Federation of Bosnia and Herzegovina), eligibility can extend to 24 months. In general, throughout the region, unemployment beneficiaries have a mutual obligation to look for jobs and/or to participate in trainings. In reality, very often monitoring remains limited (OECD, 2021[28]) and in some economies such obligations are likely ineffective given the low levels of unemployment benefits.

The nature of labour market challenges varies among different groups of people and calls for two strategic approaches to effectively implement ALMPs:

- First, ensure effective early interventions and make the most of existing job opportunities for people who have recently entered unemployment, aiming to re-integrate them into labour market. Rapid labour market re-integration of persons that have recently lost employment ensures that people continue earning income and applying their skills. Rapid re-integration can also reduce financial pressures on social protection systems and lower the risk that people become long-term unemployed.
- Second, activate the long-term unemployed and people who have never been in employment (including young and vulnerable people) through intensified individualised support and an integrated implementation approach, involving collaboration with various stakeholders. Activating the long-term unemployed can reduce the need for welfare support and avoid further deterioration of valuable skills. Young persons and vulnerable groups, including Roma, often have not had an opportunity to participate in employment. These groups represent a particular challenge for ALMPs either due to their lack of work experience or low skill levels. Low integration of young and vulnerable groups is a missed opportunity that can hamper growth and social cohesion.

Although Western Balkan economies have various ALMPs in place, overall participation is low. The share of job seekers participating in ALMP measures (Categories 2-7) ranges from 5.3% of registered unemployed in Serbia (in 2018) to 9.3% in Kosovo (in 2016) (Table 8.3). Substantially higher shares are recorded (2016) in Croatia (22.1%), Slovak Republic (26.8%) and Hungary (71.4%) (European Commission, 2021[29]). With the exception of Bosnia and Herzegovina, most ALMP interventions across the region were focused on training. Sheltered jobs and supported return to work are the main form of ALMP in Bosnia and Herzegovina, and remain also quite sizeable in Serbia. Across the region, the share of youth participating in ALMPs is higher than that of adults (Table 8.3).

Table 8.3. ALMPs coverage of measures and participation vary between economies

Share of participation in different ALMPs measures (Categories 2-7 of ALMPs) per number of unemployed registered with employment services in 2018 (or latest available)

		Albania		Bosnia and Herzegovina		Kosovo		North Macedonia		Serbia	
		Total	Youth	Total	Youth	Total	Youth	Total	Youth	Total	Youth
Registered job seekers		64 781	11 960	435 266	56 681	101 773	32 987	94 721	20 151	552 513	54 226
ALMP participants (% of registered unemployed)		7.4	30.9	7.6	13.5	8.5	22.9	8.1	11.6	5.3	9.7
ALMP participants by category (% of all ALMP participants)											
2	Training	..	..	5.6	..	84.4	..	37.4	46.5	36.7	60.8
3/4	Employment incentives	..	..	NA	..	5.5	..	27.8	34.8	0.7	0.2
5	Sheltered and supported employment and rehabilitation	..	..	90.4	..		..	2.8	0.9	33.4	20.0
6	Direct job creation	..	..		..	9.5	..	15.6	6.8	13.9	13.2
7	Start-up incentives	..	..	3.9	..	0.6	..	16.4	10.9	15.3	5.6

Note: Data on ALMPs participation by measure are from 2018, total registered unemployed are from 2018, and youth registered unemployed are from 2019. Numbers for Kosovo are from 2016. .. : Not Available.
Source: CPESSEC (2019[30]), Statistical Bulletin No. 9, https://www.docdroid.net/qvBC3jr/statisticki-bilten-br-9-cpessec-finalno-converted-pdf; RCC (2021[31]) Study on Youth Employment in the Western Balkans, https://www.rcc.int/download/docs/Study-on-Youth-Employment-in-the%20Western-Balkans-08072021.pdf/7464a4c82ee558440dfbea2e23028483.pdf Jahja Lubishtani (2018[32]), The Effectiveness of Active Labour Market Policies in Reducing Unemployment in Transition Economies, https://core.ac.uk/download/pdf/226765796.pdf; Government of Albania (2020[33]), Employment, Training, and Equal Opportunities, https://rm.coe.int/rap-cha-alb-11-2020/16809cd971.

Unemployment registration with PES varies considerably across the region depending on their capacity and the requirements of social assistance programmes. In Bosnia and Herzegovina and Serbia, registered unemployment is significantly larger than unemployment as measured by the labour force survey (by 57% and 25% respectively). By comparison, registered unemployment is 37% of survey-measured unemployment in Albania, 70% in Kosovo and 47% in North Macedonia. Registration with the PES is tied to a range of social benefits in Serbia and in the Federation of Bosnia and Herzegovina,[4] including basic health insurance coverage. This generates high incentives to register as unemployed, including for workers in the informal economy and those who are not actively looking for work (ILO/Council of Europe, 2007[34]; ETF, 2006[35]). By providing incentives for workers to register, such regulatory provisions increase the reach of the PES; however, they also stretch the ability of agencies to perform a control function and can overload placement officers with potential cases.

Low staffing levels in regional PES and high administrative workloads are key factors that limit the effectiveness of ALMPs and hamper connecting people with jobs. In 2016, the number of job seekers per PES counsellor ranged from 329 in Albania to 969 in Republika Srpska in Bosnia and Herzegovina (Table 8.4). Such a burden hinders the effectiveness of personalised counselling and job placement services (OECD, 2021[28]). In addition, PES counsellors in the region have to administer a large volume of requests for unemployment benefits. In Serbia and in Bosnia and Herzegovina, for example, unemployed persons need to register at PES in order to receive unemployment benefits, including health insurance; in Albania, social assistance beneficiaries need to register to obtain means-tested benefits. As this administrative burden falls on PES offices, counsellors are unable to effectively implement ALMPs and connect people with jobs. Even though more jobs were available per unemployed person, estimates from 2016 show large gaps in effectiveness to connect people with jobs among PES local offices within each of

the regional economies. The highest effectiveness gap (i.e. lowest performance) is found in Montenegro. Serbia showed the lowest effectiveness gap. Simulations show that boosting the effectiveness of the worst-performing PES offices could improve job placement rates (Table 8.5).

Table 8.4. Public employment service counsellors attend to a high number of job seekers

Caseloads (number of job seekers) of public employment service (PES) staff in Western Balkans and benchmark economies in 2016

	Albania	Bosnia and Herzegovina		Kosovo	North Macedonia	Serbia	Croatia	Slovenia
		FBiH	RS					
Caseload	329	619	969	769	463	436	169	137

Note: Caseloads calculated by dividing total staff by total job seekers. Data on Kosovo from 2019.
Source: World Bank (2018[36]), Functional Reviews of the Public Employment Services in the Western Balkans, https://openknowledge.worldbank.org/bitstream/handle/10986/35656/Functional-Reviews-of-the-Public-Employment-Services-in-the-Western-Balkans-Overview.pdf; European Commission (2016[37]), Assessment Report on PES Capacity, https://ec.europa.eu/social/BlobServlet?docId=16967&langId=en; OECD (2021[28]), Competitiveness in South East Europe 2021, https://doi.org/10.1787/dcbc2ea9-en.

Table 8.5. Reducing differences in effectiveness between local PES offices could improve job placements across economies

Estimated effectiveness gap, and potential placement gains if gap is closed for 2016

	Albania	Bosnia and Herzegovina		North Macedonia	Montenegro	Serbia
		FBiH	RS			
Formal jobs in area per unemployed	10.5	1.2	1.8	..	3.6	2.7
Within-economy average effectiveness (average of branch effectiveness relative to "best practice" office)	41%	67%	..	54%	25%	78%
Job placement gains if respective effectiveness gap is closed	120%	25%	..	73%	300%	20%

Note: The definition of "best practice" is economy-specific; as such, the different PES cannot be ranked against each other. The effectiveness gap is estimated by the World Bank by identifying the most efficient PES office and benchmarking it with other inefficient offices using a similar mix of inputs (resources used by offices such as number of staff and expenditure) and outcomes (number of registered unemployed transitioning into formal jobs). Additional multivariate analysis includes control variables such as socio-economic conditions and local labour demand, with the result that poorer local labour demand (e.g. in Albania and Serbia) is linked to lower office effectiveness. Kosovo was not part of the study.
.. : Not available.
Source: World Bank (2018[36]), Functional Reviews of the Public Employment Services in the Western Balkans, https://openknowledge.worldbank.org/bitstream/handle/10986/35656/Functional-Reviews-of-the-Public-Employment-Services-in-the-Western-Balkans-Overview.pdf.

Policy options for reducing unemployment durations and long-term welfare dependency through ALMPs

Ensuring rapid labour market re-integration of those who have recently lost their jobs will require increased capacities of public employment agencies, closer collaboration with employers to leverage existing jobs and better integration of technological solutions.

- **Strengthening the capacities of PES to ensure a personalised and adapted approach to individual needs.** Reducing the burden of PES counsellors is vital to provide better and more personalised services to job seekers. This could be achieved by reducing counsellors' administrative tasks and/or by increasing the number of counsellors. To improve the quality of placement services, an experiment in Germany saw 14 local public employment offices hire additional caseworkers to lower the staff/client ratios to an average of 1:70 (from the usual 1:80 to 1:250). Evaluations showed that, with lower caseloads, PES offices could intensify counselling, monitoring and sanction efforts while also boosting contacts with local firms, resulting in shorter benefit durations for the unemployed. The costs of hiring additional caseworkers were offset by decreased unemployment benefit expenditures within a period of about ten months (OECD, 2016[38]). An option to increase resources with relative ease is to contract out employment services, for example for specific groups (disabled persons, long-term unemployed) through outcome based contracts. Some of the advantages of such an approach include increased flexibility to scale resources up or down with unemployment registrations, more efficient service provision, and more tailored services and choice for job seekers (Langenbucher and Vodopivec, 2022[39]).
- **Leverage existing jobs by increasing collaboration between employers and PES.** Providing quality services to the private sector may improve the reputation of the PES as a reliable service provider for employers and increase the availability of vacancies advertised at the PES. Having dedicated "employer relationship" staff could be considered as a means to manage intake and registration of vacancies, inform employers about available ALMPs, provide targeted support for SMEs that lack human resource departments and carry out other activities. PES in the United Kingdom has put in place a Small Business Recruitment Service to serve the needs of companies with fewer than 50 employees. The service includes a specialist employer helpline, advice on the local labour market, additional support for advertising vacancies (e.g. wording and design), and post-recruitment support (OECD, 2015[40]). To further incentivise employers to publish vacancies at PES and to better link job seekers with employers, PESs could integrate job placements with job-related skills trainings to meet the labour demand of firms. South Africa offers a valuable example in which intermediary youth accelerator organisations work with the PES to provide demand-driven trainings that align with skills needed for specific jobs (Romero and Kuddo, 2019[41]).
- **Technology can cost-effectively boost the reach and accessibility of services by PES, with self-service options potentially reducing the need for personal encounters.** Technology can facilitate the work of PES in several ways. The administrative burden of PES staff, for example, can be decreased by transferring the application for unemployment benefits to an online platform. Several OECD countries have implemented this option with varying degrees of take-up – from 1-2% of claimants in Spain to 88% in the United Kingdom (OECD, 2015[40]). Online training modules can be offered, as is done in Belgium (OECD, 2015[40]). Offering online encounters between employers and job seekers (replacing physical encounters in local PES offices) can also be effective, as shown by a programme offered by the PES in Sweden that replicates the concept of "speed-dating" (OECD, 2015[40]).
- **Profiling tools help increase the efficiency of PES services by targeting resources to those most in need and offering job seekers services and support adapted to their profile.** Statistical profiling can help increase the efficiency of PES service provision in the economies in the region given very high PES caseloads and the need to improve targeting. Statistical profiling includes the application of tools which assess the job-finding prospects of job seekers and help to deliver employment services more efficiently. Statistical profiling has several advantages: it delivers services more efficiently by placing clients in different groups depending on their needs, it assesses the prospects of job seekers to find work, it can help to improve the cost-efficiency of PES, and is an input into targeting and tailoring to job seekers' needs, complementing or supporting the assessment carried out by case workers. The use of statistical profiling has become

widespread across OECD countries (Box 8.2). To ensure a positive impact, it is important to overcome key potential limitations of statistical profiling, including data lags, a lack of accuracy, and a lack of transparency. Likewise, involving all stakeholders, especially case workers, in the implementation of any type of profiling early on is crucial (Desiere, Langenbucher and Struyven, 2019[42]).

- **Provide adequate opportunities to job seekers to take up trainings to reskill or upskill in line with the labour market needs.** Skills are a key determinant of worker productivity and labour market outcomes. Workers with higher proficiency are more likely to be employed and command higher wages (OECD, 2018[27]). Evidence shows that training programmes that develop technical skills and competences generally improve the probability of finding employment. To be most effective, skills development programmes need to focus on skills demanded by the labour market and complement the formal education system (Sida, 2021[43]).

Activating long-term unemployed and vulnerable groups will require increased individualised attention, establishing incentives for PES staff to increase their focus on these groups, potentially introducing programmes that are different in nature and approach, and setting up an integrated targeting approach involving collaboration with various stakeholders.

- **Individualised support should be strengthened and promoted in the regional economies.** PES can establish specialised units or case managers for specific groups (e.g. long-term unemployed young people, people with disabilities, Roma and other ethnic minorities) or rely on external provision when expert knowledge is required to deal with specific labour market integration issues. In Europe, employment services such as *Arbetsformedlingen* in Sweden or the *VDAB* in Flanders, Belgium, have diversified their services after the first offer of support. As such, they have tasked their staff with specific parts of counselling, while automating first level support to reduce the weight of basic and repetitive questions on initial job seeker contacts. For example, VDAB has so called job mediators who are specialised in relevant sectors in Flanders, such as construction, retail and ICT (Finn and Peromingo, 2019[44]). Reducing the burden on PES counsellors (see above) may also create space for more individualised support.
- **Establish incentives for PES to ensure adequate effort is directed toward better labour market integration of long-term unemployed and people lacking relevant job experience.** Evidence has shown that attitudes of PES counsellors towards job seekers matter in terms of quality and effectiveness of the services provided (OECD, 2021[45]). The success rate of PES counsellors in matching hard-to-employ job seekers with jobs may also be increased by providing salary additions as a function of the staff member's effectiveness.
- **Introduce special measures targeted at overcoming group-specific obstacles to employment.** Due to their lack of work experience and relevant education, young people are one of the groups that face high barriers for entering employment. Youth Guarantee Schemes aim to improve the prospects of the young who register as unemployed by providing them with the right to a job offer, an opportunity to carry on with education or inclusion in an active employment measure. Activating this vulnerable group by offering pathways can help mitigate the risk of long-term unemployment and its deleterious effects on youth. North Macedonia launched such a scheme, the Youth Guarantee, in 2018. In its first year, 5 266 young people participated (2 694 of whom were women). Just under half (2 209 or 42%) successfully completed the scheme with 1 972 finding jobs (925 women) within four months. Over the next two years, participants quadrupled: by 2020, the scheme had 25 502 registered (12 863 women) with 7 684 finding employment within four months (ETF, 2021[46]). In the case of Roma, a population group facing more limited access to services and economic opportunities, technology can facilitate registration and follow-up with the PES. Contacting the PES via mobile phones, instead of in-person meetings or via e-mail, can increase the reach of the PES and boost placement chances of unemployed Roma. A similar approach has been used in South Africa, with trained youth accelerators reaching young job

seekers who often live in informal settlements via phone calls. The accelerators carry out psychometric and qualitative assessments to profile the young beyond their often limited formal education qualifications (OECD, 2021[47]).

- **An integrated approach to activating long-term unemployed and vulnerable groups requires increased co-operation with other institutions such as non-governmental organisations (NGOs), social care services, educational institutions, local communities and other stakeholders that operate locally.** The PES in Bulgaria has established a good practice in which youth mediators, Roma mediators and PES case managers work in the field to identify unemployed and provide help for their job-seeking activities, such as editing résumés, preparing job applications, and mediating between them and employers (Robayo-Abril and Millan, 2019[48]).

- **Entrepreneurship development programmes should be implemented alongside other ALMPs, especially in economies with high levels of self-employment and informal employment.** Employment services that focus on matching job seekers to vacancies may not address the needs of self-employed workers and subsistence entrepreneurs, including small-scale agricultural workers in the informal economy (Sida, 2021[43]). Conversely, entrepreneurship promotion programmes can have very positive outcomes on employment and earnings in low and middle-income economies (Kluve et al., 2017[49]). Such programmes are most effective if they combine interventions that address the multiple obstacles to entrepreneurship, in particular they often combine capital injections with business or technical training.

Box 8.2. Statistical profiling in public employment services: The case of a new profiling tool in Austria

Profiling tools assess the prospects of job seekers to find work, and support the allocation of workers in different groups according to their needs. Profiling tools are used across OECD countries to determine the timing and intensity of support for job seekers in accordance to their likelihood of finding a job. As they support targeting and tailoring services to needs, they help improve the cost-efficiency of public employment services.

In November 2018, the Austrian PES introduced its first statistical profiling model (AMAS). The model uses data from administrative sources to predict the probability of moving into employment. Based on evaluations, the model achieves a very high level of accuracy (between 80% and 85%) using existing administrative data sources only.

The profiling model consists of two functions which assess clients' likelihood of reintegration into the labour market in the short term and long term. The short-term function assesses the probability of moving into unsubsidised employment for at least three months in the first seven months after the start of unemployment. The long-term function estimates the probability of moving into unsubsidised employment for at least six months over 24 months. Based on the assessment, clients are then assigned to three different client groups: high, medium and low chance of labour market reintegration. Profiling is typically used to focus on job seekers most at-risk of long-term unemployment, but Austria has recently shifted to provide support earlier to clients in the medium-risk group as this group may benefit more from ALMPs.

The model makes use of socio-economic variables (gender, age, nationality), information on job readiness (education, health limitations, care responsibilities), and opportunities (regional labour market situation). A clear strength is the use of all available labour market history information for each job seeker, including detailed information on prior work experience (type and intensity), frequency and duration of unemployment, and participation in active labour market programmes. The full labour market history is available for about two thirds of all new clients. The history is typically incomplete for youth,

individuals with longer periods outside the labour market and migrants. Regional labour market data is captured through segmenting regional PES offices into five clusters, based on supply and demand for labour in each region.

Source: Desiere, Langenbucher, and Struyven (2019[42]), Statistical profiling in public employment services: An international comparison, https://dx.doi.org/10.1787/b5e5f16e-en.

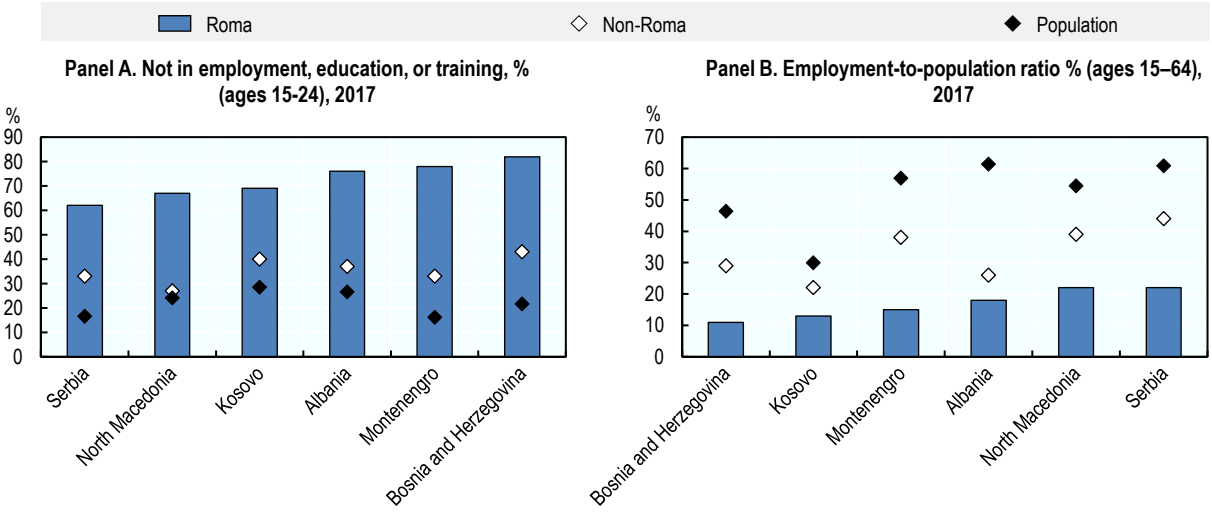
8.2.2. Create equal opportunities for vulnerable groups to participate in the labour market

The Roma constitute about 5% of the regional population and face particularly challenging labour market situations. Throughout the region, minorities – especially Roma – and people with disabilities face poor conditions to enter employment. Although accurate figures are scarce, estimates show as many as 1 027 500 Roma across the region, constituting 5.3% of total population, ranging from 1.7% in Bosnia and Herzegovina to 9.6% in North Macedonia (European Commission, 2014[50]). Labour market outcomes of Roma are significantly worse than those of other population groups (Figure 8.7). Roma have lower educational attainment and face various barriers to access on-the-job training and vocational skills. In addition, Roma generally have less access to networks and information about vacancies, placing them in a disadvantaged position when searching for jobs (Robayo-Abril and Millan, 2019[48]). This opens the scope for active labour market programmes designed to train them in occupations in which they are traditionally underrepresented to benefit from wage differentials between sectors.

People with disabilities also face barriers to employment, starting at early levels of education; they are also subject to many stereotypes and other forms of marginalisation. Some efforts are being made in the region to integrate people with disabilities into employment. Albania, for example, has made important progress by adopting two relevant laws: the law “On Promotion of Employment” (15/2019) defines a quota on employing people with disabilities (i.e. 4% of all employees); and the reforms to the law “On Protection from Discrimination” (124/2020) reinforces protection against discrimination. Despite these efforts, further progress is required to create employment opportunities for disabled persons who are able and willing to work and thus reduce pressures on social protection expenditures (OECD, 2021[28]).

Figure 8.7. Roma have worse labour market outcomes than neighbouring non-Roma and the general population

Youth not in employment, education or training, % (ages 15-24) (NEET), 2017 (Panel A), and employment-to-population ratio % (ages 15-64), 2017 (Panel B)



Note: Data source is the UNDP-World Bank-EC Regional Roma Survey (RRS) data from 2017, which includes Roma who live in Roma clusters (areas in which the concentration of Roma ranges between 10% and 40%) and non-Roma living in close proximity of the sampled Roma (within 300 meters). Sample sizes for RRS were 750 Roma and 250 non-Roma households (Robayo-Abril and Millan, 2019[48]).
Data for general population for NEET is for 2018, for employment-to-population for 2019.
Source: Robayo-Abril and Millan (2019[48]), Breaking the Cycle of Roma Exclusion in the Western Balkans, https://documents1.worldbank.org/curated/en/642861552321695392/pdf/Breaking-the-Cycle-of-Roma-Exclusion-in-the-Western-Balkans.pdf; World Bank/WIIW (2021[11]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html.

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Policy options for integrating vulnerable groups into the labour market

Connecting people with disabilities and minority groups (such as Roma) with jobs requires policy actions targeted at their individual obstacles to enter employment, including overcoming discrimination, development of social enterprises, and other policies.

Take steps to reduce stereotypes in education and the workplace. The regional economies could conduct awareness-raising activities in the education sector and for the broader public, showcasing potential impacts of better integration of people with diverse backgrounds and abilities in terms of both increased social cohesion and impact on growth. Public institutions should serve as role models for inclusive workplaces while also encouraging private sector employers to work with disadvantaged groups.

Foster development of social enterprises (SE) as a stepping stone for integrating vulnerable groups into the labour market. SEs exist across the Western Balkans and often constitute an integral part of their development strategies, although many are still at an early stage of development and face several barriers for operations (Andjelic and Petricevic, 2020[51]). Low access to funds, which SEs need to grow and develop, is one main obstacle of particular importance considering that SEs focus primarily on social impact and operate with low profitability, given that they work with people with disabilities and other vulnerable groups with low skills and limited work experience. Currently, funding in the region comes mainly from grants and start-up investments (Andjelic and Petricevic, 2020[51]). To overcome the issue of low funding, SEs in Ireland can access loans through the provider Clann Credo, which shares 50% of loan default loss with the Social Finance Foundation. Adapted training is needed for social entrepreneurs in

areas such as business development. Additionally, policies targeted at raising awareness among the general public could showcase the importance of SEs and their full potential, which in turn can increase their profitability. Likewise, the public sector could increase demand for SEs' products by prioritising them in public procurement clauses. Co-ordination with an array of stakeholders for formulating such clauses has proven successful in the case of Barcelona City (OECD/European Union, 2017[52]). Finally, it would also be important to ensure that activities of social enterprises are oriented and adapted towards skills that vulnerable groups have and are in close geographical proximity to these groups.

Offer incentives for employers and ALMPs to increase chances for labour market participation of vulnerable groups. Various policy options – such as employment quotas, wage subsidies and services for employers – can increase incentives for recruitment of vulnerable groups. ALMPs tailored to the specific needs of vulnerable job seekers are also important. To integrate young people with mental disabilities into the labour market, the Dutch PES has been subcontracting specialised services, delivered by NGOs. Such services offer vocational training and the ability to obtain job experience (Scharle and Csillag, 2016[53]). Based on evaluation, about one in three participants achieved labour market integration in the period 2005-10. Complementary to such programmes, it would be important to improve rehabilitation, regulation on the level and conditions of disability benefits, and make changes in public education with an aim to improve access and quality.

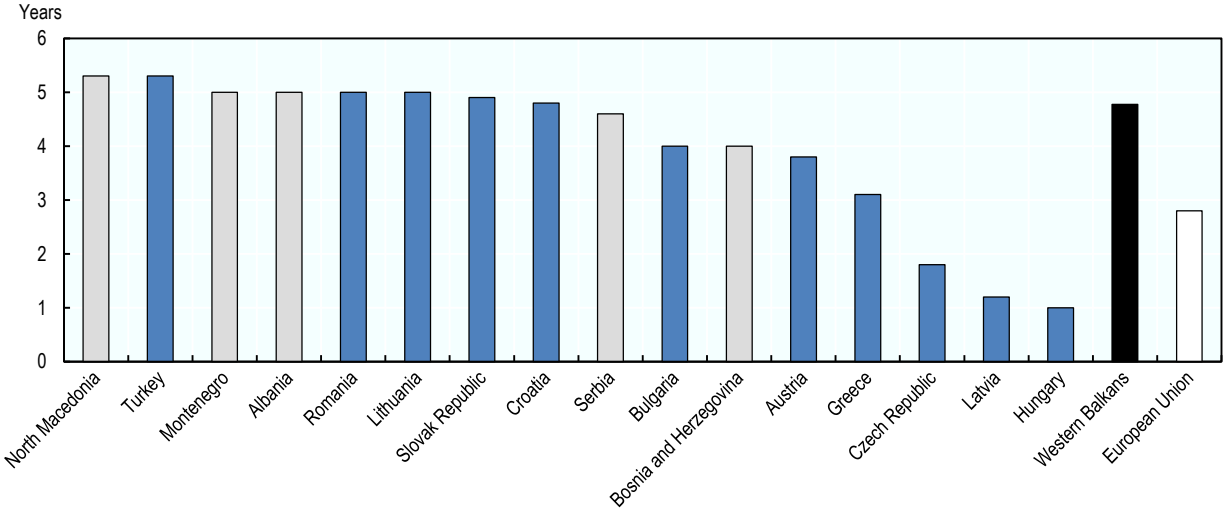
8.2.3. Strengthen women's role in society by supporting their integration into the labour market

Although there are variations across the Western Balkan economies, the low participation of women in paid work in the Western Balkans is striking. Studies show that the lack of women's participation in the labour market has been hindering economic growth in the region (Suta, 2021[54]). Despite variations between the economies and recent progress, the regional gender gap in labour force participation of 19.9 percentage points (in 2020) is significantly higher than the OECD average of 16.5 in 2020 (Figure 8.4).

Women across the region face several barriers to entering formal employment, including lack of available childcare, institutional barriers and social norms. Women workers with children have to find ways to reconcile work and family life. In all Western Balkan economies, a comparatively long childcare gap, defined as the period in which families with children are unable to benefit from either childcare leave or a guaranteed place for their child in early childhood education and care (ECEC) until compulsory primary education, impedes access to work outside the home for several years (Figure 8.8). Enrolment in ECEC remains low in the region, especially in Bosnia and Herzegovina and North Macedonia (Table 8.6). Demand for ECEC exceeds available places in most regional economies (European Commission, 2019[55]).

Figure 8.8. Large childcare gaps exist across the Western Balkans

Childcare gap, 2018/19



Note: The childcare gap is defined as "the difference between the maximum length of adequately compensated post-natal childcare leave and the earliest start of a universal place guarantee in ECEC (legal entitlement or compulsory ECEC). When there is no guaranteed place in ECEC, the gap is calculated until the start of compulsory primary education" (European Commission, 2019[55]).
Source: European Commission (2019[55]), Key Data on Early Childhood Education and Care in Europe, https://eacea.ec.europa.eu/national-policies/eurydice/content/key-data-early-childhood-education-and-care-europe-%E2%80%93-2019-edition_en.

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Lack of flexible work arrangements also affect women's participation in the labour market. Part-time work can be a way to combine family duties and employment and could potentially increase female labour market participation. In the Western Balkans, the share of women working part time ranges from 4.3% of total employment in Kosovo to 22.4% in Albania. By comparison, the share of women working part time in the OECD is 25.1% (World Bank/WIIW, 2020[56]). Economies that have relatively high mandatory minimum social security contributions, such as Albania, Bosnia and Herzegovina, North Macedonia and Serbia (Table 8.6), may be discouraging low-paid, part-time employment.

Social norms, such as gender stereotypes and patriarchal culture, continue to prescribe the unpaid caretaker role to women. Women bear the brunt of unpaid care work in the household (a main self-reported reason for labour market inactivity). Albanian women spend over six times more time on unpaid household chores than men, compared to around two times more in comparable regional economies (such as Serbia) and in the OECD (OECD, 2019[57]). Among those in the labour force, engagement as unpaid family workers is high among females in the region, ranging from 29.4% of female employment in Albania to 3.5% in Montenegro, compared with 1.4% in the European Union (Table 8.6).

Table 8.6. Female labour market participation in the Western Balkans and factors affecting women's participation

2020 or latest available year

		Albania	Bosnia and Herzegovina	Kosovo	Montenegro	North Macedonia	Serbia	EU-27	OECD
Labour market outcomes	Labour force participation women (%)	52.9*	36.7	17.8	46.4	43.7	46.5	50.9	51.1
	Gender gap labour force participation (percentage points)	15.1*	22.5	30.4	14.2	21.6	15.4	12.4	16.5
Childcare	Childcare gap (years)	5 years**	4 years**	..	5 years**	5.3 years**	4.6 years**	2.8 years **	..
	Enrolment in ECEC (0-2 years) (%)	..	11.2	4.9**	40.9	18.2**	42.2	33.9*	36.1*
	Enrolment in ECEC (3-5 years) (%)	75.1	27.3	13.9**	78.1	41.8**	65.3	99.9	81.7
Institutional factors	Part-time work women (%)	22.4*	10.3*	4.3*	4.7*	5.3*	13*	24	25.1
	Minimum required social security contributions base	Minimum wage (EUR 243)	Minimum wage (EUR 266 in RS, EUR 208 in FBIH)	No minimum threshold for SSCs	No minimum threshold for SSCs	50% of average wage (EUR 303)	35% of average wage (EUR 223.3)	..	..
	Total social security contributions (% of gross wages)	21.6*	41.5% (FBiH) 33% (RS)*	10.0*	34.3*	27*	36.5*	34.0	26.1
Social norms and gender stereotypes	Female-to-male ratio of time devoted to unpaid care work (%)	7.2***	..	..	..	3.2***	2.5***	2.1***	2.4***
	Contributing female family workers (% of female employment)	29.4**	5.6**	4.9*	3.5**	8.3**	7.7**	1.4**	2.0**

Note: *2019, **2018, *** 2014. ..: Not available.

Labour market activity for age group 15+years (World Bank, 2021[8]).

Data on Kosovo's ECEC enrolment not available on WDI like for other countries, but for 0-4 years instead of 0-2 years (ESPN, 2019[58]), and for 3-5 years (World Bank, 2021[8]).

Source: World Bank/WIIW (2021[11]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html; OECD (2021[12]), OECD statistics (database), https://stats.oecd.org/; Eurostat (2021[13]), Eurostat (database), https://ec.europa.eu/eurostat/data/database; European Commission (2019[55]), Key Data on Early Childhood Education and Care in Europe, https://eacea.ec.europa.eu/national-policies/eurydice/content/key-data-early-childhood-education-and-care-europe-%E2%80%93-2019-edition_en; UNESCO Institute for Statistics (UIS) (2021[59]), Education Sustainable Development Goals (database), http://data.uis.unesco.org/; World Bank/WIIW (2020[56]), Western Balkans Labor Market Trends 2020, https://wiiw.ac.at/western-balkans-labor-market-trends-2020-dlp-5300.pdf; World Bank/WIIW (2019[60]), Western Balkans Labor Market Trends 2019, https://documents1.worldbank.org/curated/en/351461552915471917/pdf/135370-Western-Balkans-Labor-Market-Trends-2019.pdf; World Bank (2021[8]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators; World Bank (2021[61]), OECD (2014[62]), Gender, Institutions and Development (database), https://stats.oecd.org/Index.aspx?DataSetCode=GIDDB2019; Friedrich-Ebert-Stiftung (2020[63]) Country profile - Bosnia and Herzegovina, https://library.fes.de/pdf-files/bueros/sarajevo/17436.pdf; Kosovo Agency of Statistics (2020[64]), Labour Force Survey 2019, https://ask.rks-gov.net/media/5412/labour-force-survey-2019.pdf.

Policy options for creating equal opportunities for women to participate in the labour market

Ensuring equal opportunities for women requires a multi-faceted approach, such as providing adequate and affordable childcare, addressing institutional barriers, and combatting negative stereotypes.

Improve access to childcare to facilitate labour market integration. Addressing limited access to childcare was a key issue put forward by peer-learning participants, especially in Bosnia and Herzegovina. Evidence shows that supplying low cost child care leads to increased employment and increased earnings for mothers (Sida, 2021[43]). Governments in the region should consider increasing supply and affordability of places in ECEC or investing in suitable alternatives, especially for children under the age of three. Several options exist to address the lack of childcare facilities, including increasing public investments for new facilities in areas where they are lacking, giving priority to low-income families in existing public facilities, and building a case for private sector investment in the childcare market. To increase access to funds, local government should also be better equipped to mobilise resources, including accessing EU grants that provide funding for childcare.

Provide appropriate frameworks for part-time work and improve flexible working arrangements. To do so, it would be important to first establish legislation to support the principle of equality between part-time and equivalent full-time workers to eliminate discrimination in hourly wages and conditions of work. In addition, it would also be important to review the structure of tax and benefit systems to avoid disincentives linked to minimum social security contributions and the loss of social benefits at low levels of labour income. Complementarily, introduction of flexible working arrangements can facilitate the return of women to work after maternity leave, including options for shared parental leave.

Address the root causes of low female labour market participation embedded in social norms. Appropriate normative and institutional frameworks are needed to promote, monitor and enforce equality and non-discrimination based on gender. The economies in the region have legislation mandating equal pay for work of equal value, but gender equality legislation and protection against gender violence and gender-based discrimination still has room for progress (OECD, 2019[57]). The approval in 2021 of the Law on Gender Equality in Serbia is a welcome development, as are discussions towards the approval of a Gender Equality Law in North Macedonia. Addressing gender gaps in wages, hours worked, occupations held and sectors of employment also requires specific action. Encouraging fathers to take parental leave can lead them be more involved in care duties, with lasting effects on their involvement in children's growth and positive effects on children's wellbeing. Father-specific parental leave quotas are used in a number of OECD countries (Iceland, Sweden) to that effect (OECD, 2016[65]).

Reduce stereotypes about women in education and in the workplace. The regional economies could conduct awareness-raising activities on gender equality in the education sector and for the broader public, showcasing the relevance of increased women's participation in terms of both increased social cohesion and impact on growth. This can further empower women and encourage them to take part in professions traditionally done by men. Public institutions should serve as role models for higher inclusion of women.

8.3. Suggestions for building effective, inclusive and financially sustainable social protection in the Western Balkans

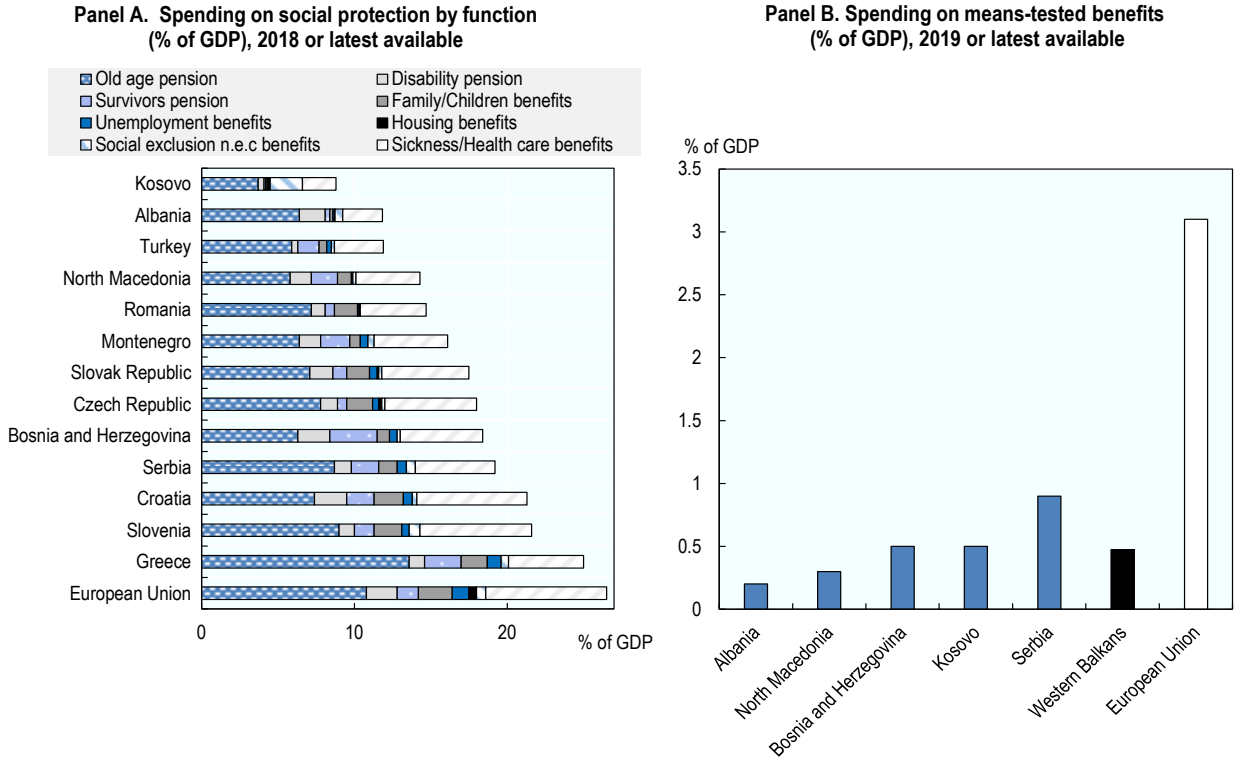
Social protection is key for inclusive development and for building socially cohesive societies. This section analyses key regional issues affecting social protection as put forward by the peer-learning participants as well as policy suggestions based on international practice. At present, various labour market challenges undermine the effectiveness of social security systems to provide safety nets to people. In turn, these challenges are jeopardising the financial sustainability of such systems. Additionally, social assistance systems are often poorly targeted and inadequate, and do not sufficiently integrate beneficiaries into labour markets, thereby further increasing their dependency on welfare. Finally, local governments,

which have a lead role in creating integrated social service delivery systems, often have very limited capacity and funding to fulfil their role. Sections 8.3.1 - 8.3.3 shed more light on these issues and suggest options for going forward.

Social protection systems in the region often do not provide adequate income security to those most in need. Most social protection systems in the Western Balkans combine contribution-based social security benefits with tax-financed social assistance and services. Public spending on social protection expenditure as a share of gross domestic product (GDP) (including healthcare) is 16% in the Western Balkans, ranging from 8.8% in Kosovo to 19% in Serbia; in comparison, the EU average is 26.5%[5] (Figure 8.9 – Panel A). Most of the public social expenditure in the region is directed toward pensions. A high share of workers in the informal sector do not have access to benefits from the contribution-based system. Spending on means-tested benefits makes up only a very small share of overall social protection spending and – due to low benefit levels and, in some cases, poor targeting – does not sufficiently contribute to poverty alleviation (Figure 8.9 – Panel B). Meanwhile, some status groups (such as veterans and their families) receive more generous benefits in the form of pensions and social assistance benefits, regardless of their needs and labour market participation.

Figure 8.9. The bulk of social protection spending flows to pensions, while social assistance for the most vulnerable is underdeveloped

Spending on social protection by function (% of GDP), 2018 or latest available year (Panel A), and spending on means-tested benefits (% of GDP), 2019 or latest available year (Panel B)



Note: n.e.c. = not elsewhere classified. In Panel A, the latest available year for Albania is 2017.

Source: Eurostat (2021[13]), Database, https://ec.europa.eu/eurostat/data/database; Mustafa and Haxhikadrija (2019[66]), Financing social protection – Kosovo, https://ec.europa.eu/social/BlobServlet?docId=21854&langId=en; Ymeri (2019[67]), Thematic Report on Financing social protection: Albania, https://ec.europa.eu/social/main.jsp?catId=1135&intPageId=3589; ILO (2021[68]), Review of social protection system in Albania; http://www.ilo.org/budapest/what-we-do/publications/WCMS_798635/lang--en/index.htm; European Commission (2021[69]), Economic Reform Programme of Albania (2021-2023) - Commission Assessment, https://data.consilium.europa.eu/doc/document/ST-8097-2021-INIT/en/pdf.

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8.3.1. Creating a more inclusive and fair social security system in the Western Balkans

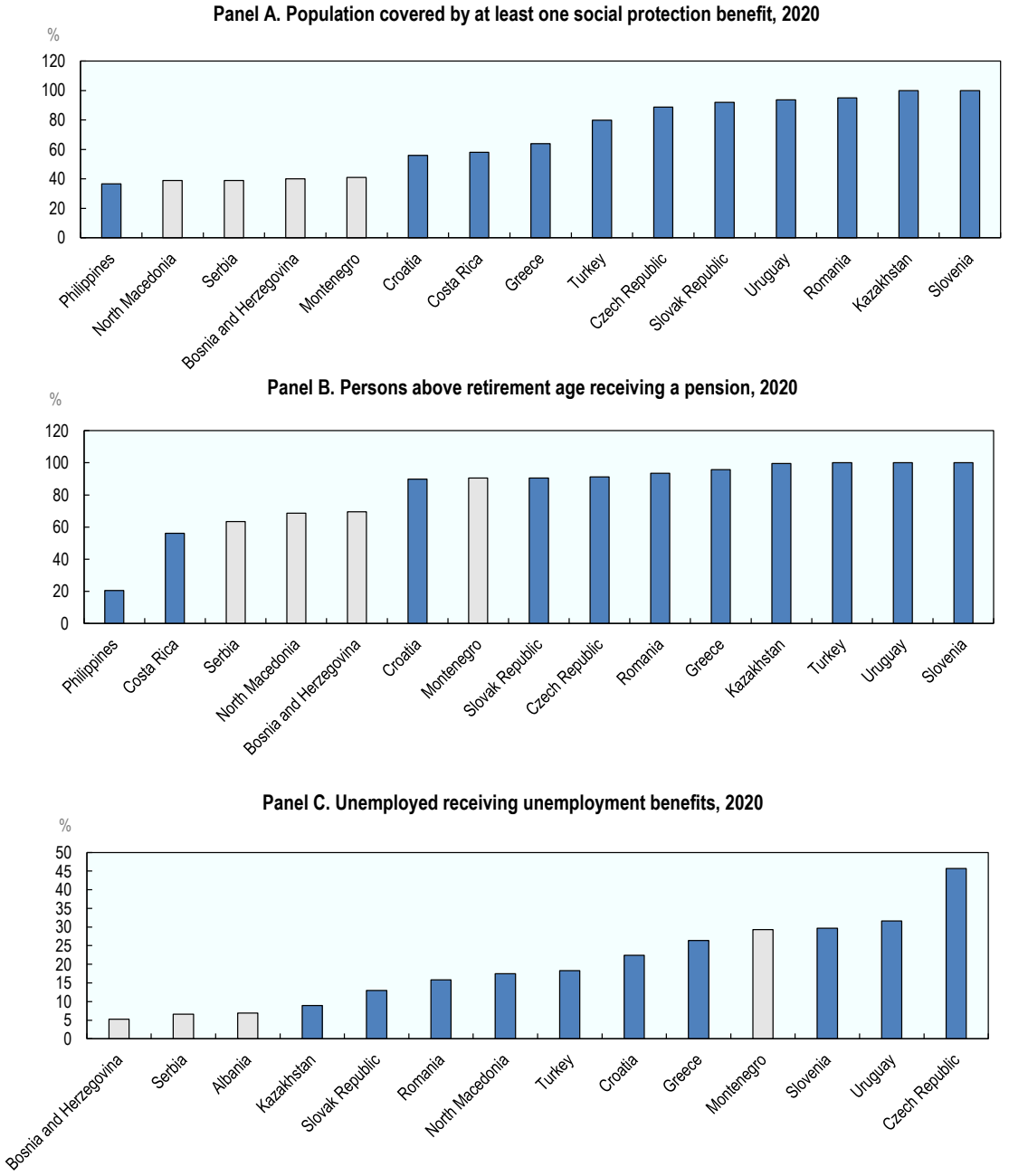
Current social security schemes do not provide a wide safety net for many people in the region. Across four Western Balkans economies for which data are available, only about 40% of the population is covered by at least one social protection benefit, leaving many without adequate protection (Figure 8.10 – Panel A). Except in Montenegro, the share of persons above retirement age who receive a pension ranges from 63.5% in Serbia to 69.5% in Bosnia and Herzegovina, indicating that about one-third of the elderly do not have income security in their old age (Figure 8.10 – Panel B).[6] Regarding the unemployed more broadly, only about 6% receive unemployment benefits in Albania, Bosnia and Herzegovina, and Serbia, which is below other benchmark economies. This likely reflects that many long-term unemployed have exhausted their benefits, informality and limited opportunities for some, especially the young, to contribute to the social security system before becoming unemployed (Figure 8.10 – Panel B).

The structure of labour markets in the region is part of the challenge. Due to the lack of adequate and stable employment opportunities, many people, especially the young, do not contribute to unemployment insurance long enough to qualify for unemployment benefits. Additionally, many long-term unemployed have exceeded the duration of their unemployment benefit entitlements. This comes with an accompanying risk of exiting the labour market altogether, making future work less likely, which disenfranchises people. Finally, many people work informally and are very likely not contributing to the social security system; as such, they have no access to unemployment benefit entitlements and pension security.

High social security contributions in the Western Balkans, combined with lower and relatively flat personal income tax schedules, create a relatively high and regressive labour taxation, affecting especially low-wage earners. The overall level of labour taxes, measured as a tax wedge for a single worker at 100% of the average wage,[7] is relatively high in three of the six Western Balkan economies (Serbia, Montenegro, and Bosnia and Herzegovina) – and also to some degree in North Macedonia (Figure 8.11 – Panel A). High tax wedges tend to discourage employers from formalising employment relationships with workers. The structure of labour taxes (the relative shares of personal income tax and social security contributions in total labour taxes) is tilted heavily toward contributions in almost all economies of the region. Furthermore, the progressivity of personal income tax[8] is non-existent or very modest in all economies except Albania (Figure 8.11 – Panel B).[9] The low degree of progressivity within the chosen range of the wage distribution, coupled with relatively high minimum social security contributions, means that low-earning workers in these economies face a higher relative tax wedge than those earning the average wage. This reduces the take-home pay of low-wage earners and those working shorter hours, often incentivising them to work informally or exit the labour market altogether (World Bank/WIIW, 2019[60]).

Figure 8.10. Scope exists to increase the coverage of social protection schemes in the Western Balkans

Population covered by at least one social protection benefit (% of total population), 2020 (Panel A), persons above retirement age receiving a pension (% of persons above retirement age), 2020 (Panel B), and unemployed persons receiving unemployment benefits (% of all unemployed), 2020 (Panel C)

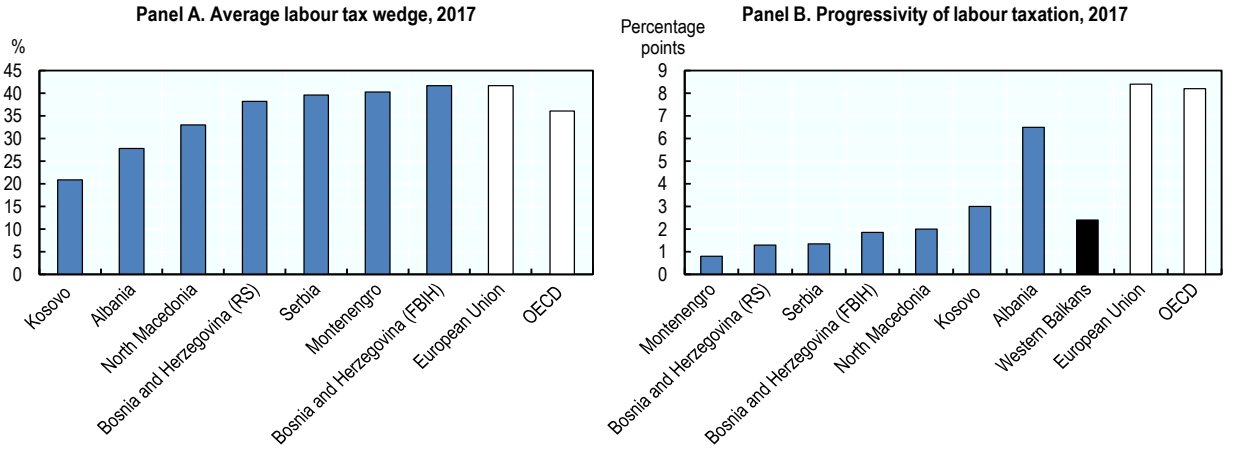


Note : In Panel A, the proportion covered by at least one social protection benefit is a ratio of the population receiving cash benefits under at least one of the contingencies/social protection functions (contributory or non-contributory benefit) or actively contributing to at least one social security scheme to the total population.
Source: ILO (2021[16]), ILOSTAT, https://ilostat.ilo.org/data.

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Figure 8.11. High labour market taxation often renders social security ineffective

Average labour tax wedge (Panel A), and progressivity of labour taxation (Panel B)



Note: Panel A displays the statutory tax burden on a representative worker earning the average wage. The European Union average displayed in this figure includes 22 members and the United Kingdom (previous member): Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain and Sweden. In Panel B, progressivity of labour taxation is calculated as the percentage point increase of the tax wedge between workers earning 67% of the average wage and workers earning 167% of the average wage.
Source: World Bank/WIIW (2019[60]), Western Balkans Labor Market Trends 2019, https://documents1.worldbank.org/curated/en/351461552915471917/pdf/135370-Western-Balkans-Labor-Market-Trends-2019.pdf.

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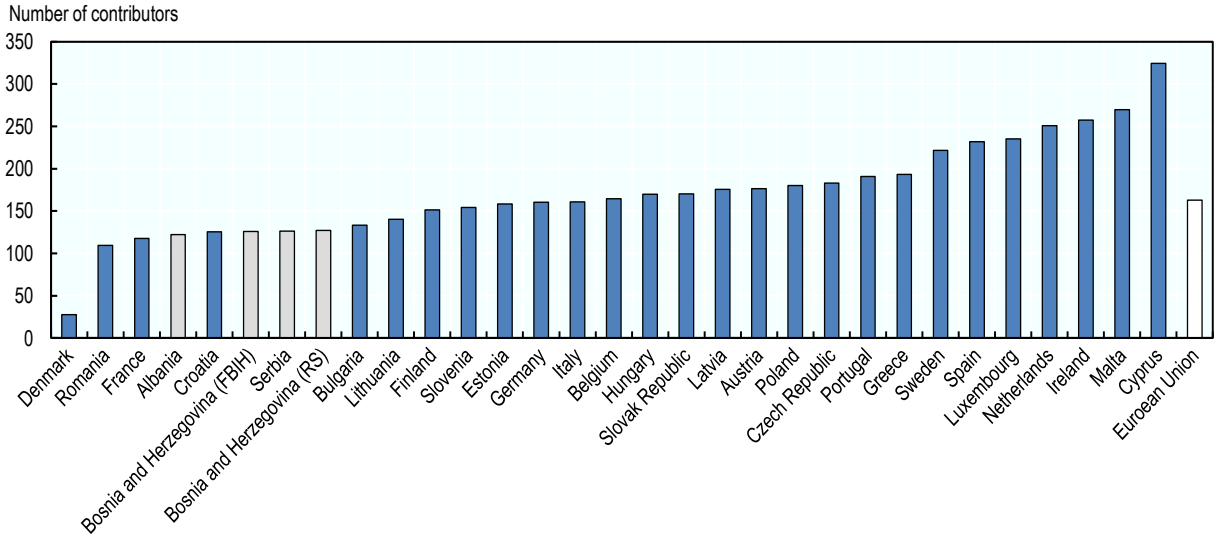
With rapidly ageing societies, current low levels of social security contributors in the active population are likely to negatively impact the financing of old-age pensions, an integral part of any social insurance system and a tool to foster social cohesion. Currently, uptake of private old-age insurance is very low in the region; public pension outlets generally make up the largest – and growing – share of overall social protection spending (OECD, 2021[5]). With the exception of Kosovo, all Western Balkan economies have undertaken major reforms of their pension systems in recent years, which has improved the financial sustainability of such systems in the short to medium term. Pension coverage is generally high and special-interest groups (such as war veterans) receive additional, non means-tested pensions; however, payments are too low to fully protect against old-age poverty (OECD, 2021[5]). In parallel, the relatively low number of pension contributors is creating additional pressures on the pension systems (Figure 8.12). In light of low labour market participation and population ageing, further efforts are needed to ensure the long-term sustainability of social protection systems and adequate protection for people. Regional economies have different pension systems with different implications for the trade-off between sustainability and generosity.

- In 2014, Albania removed caps on maximum benefits, linking contributions and payments to incentivise pension uptake. The government also introduced means-tested social pensions, which improved the pension system's fiscal sustainability and its overall adequacy. Despite the improvements, significant gender differences exist when it comes to adequacy: in 2018, women reaching pensionable age received 23.5% lower pensions than men. Given high informality and long-term unemployment, social security coverage needs to be increased: only 40% of the working-age population is currently covered by the pension system (Musabelliu, 2021[70]). Failure to increase coverage could lead to high reliance on social pensions in the future, which currently amounts to only 55.6% of the monthly at-risk-of-poverty threshold (Annex Table 8.A.1).

- In Bosnia and Herzegovina, both entities have public pay-as-you-go based pensions systems, which have been reformed to introduce a points-based system, improving the outlook of the pension systems for the future (World Bank, 2020[71]). However, pensions remain inadequate for many. Although pensions constitute the largest share of social protection spending in Bosnia and Herzegovina, persons aged 65 and above are more exposed to the risk of poverty than other age groups. About 20% of individuals in this age group live below the poverty threshold (defined as 60% of median equivalised household consumption) (Obradović, 2021[72]).
- Kosovo currently has a three-pillar pension system;[10] however, lack of private savings and over-reliance on government revenues to finance pension expenditure affects pension adequacy. Without major reforms, these factors might jeopardise the system's long-term financial sustainability. The three-pillar pension policy has advantages in terms of implementation, coverage and transparency, but also has several shortcomings. Currently, pensions rely mostly on Pillar I, which is government funded: 95% of all pensions come from government revenues, which creates significant financial pressures. That said, government-funded pensions are relatively small; more than 70% of retirees receive income worth just 21% of average net market wages. Given the low employment rates in Kosovo, the majority of citizens did not save under Pillar II (Mustafa, 2021[73]).
- North Macedonia's reform opted to maintain a pay-as-you-go basic pension, but also introduced (in 2019) a fully funded second pillar and price indexation of pensions, which helped to stabilise financial flows in the pension fund. Pension adequacy is good overall but the system shows significant gender gaps. Compared with men, older women have lower pensions and lower access to the pension system: among those aged 65-79, the gender gap in pension income is 22.7% while the coverage gap is 22.1% (Gerovska Mitev, 2021[74]).
- Serbia has kept a single pillar pay-as-you-go system while also implementing various reforms to address pension fund deficits. Serbia introduced regulations that affected both the retirement age and the pension level from 2008 onwards. In combination with a 4 percentage point increase in the pension insurance contribution rate (in contrast to the reduction in contributions for health), these changes lowered the pension fund deficit (OECD, 2021[5]). Despite improved fiscal sustainability, this came at the price of lower pension adequacy. While the last in-depth projection and simulation exercise in Serbia was done in 2014, it is expected that decreasing trends in both expenditure and adequacy will continue (World Bank, 2020[75]).

Figure 8.12. A relatively low number of contributors creates pressure on pension systems in the region

Pension support ratios (number of contributors per 100 beneficiaries), 2019 or latest available year



Note: Data for Albania, Bosnia and Herzegovina, and Serbia are for 2018.
Source: European Commission (2021[76]), The 2021 Ageing Report, https://ec.europa.eu/info/sites/default/files/economy-finance/ip148_en.pdf; World Bank (2020[77]), Albania: Pension Policy Challenges in 2020, https://documents1.worldbank.org/curated/en/110911593570542693/Albania-Pension-Policy-Challenges-in-2020.docx; World Bank (2020[71]), Bosnia and Herzegovina: Pension Policy Challenges in 2020, https://documents.worldbank.org/pt/publication/documents-reports/documentdetail/292981593571282850/bosnia-and-herzegovina-pension-policy-challenges-in-2020; World Bank (2020[75]), Serbia: Pension Policy Challenges in 2020, https://documents1.worldbank.org/curated/en/598501593564636264/pdf/Serbia-Pension-Policy-Challenges-in-2020.pdf.

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Policy options for creating more inclusive and fair social security systems

Social security provision should be viewed as an integrated concept, taking into account insurance against a broad range of risks, including unemployment, healthcare needs, old age and disabilities. To close existing gaps in social security provision, Western Balkan economies will need to increase coverage, improve equity and ensure financial sustainability of the social protection system.

Increasing coverage of both social insurance and social assistance mechanisms matters for ensuring that a broad segment of the population has social security entitlements and may improve the overall financial sustainability of the system. Extending the coverage of contributory social insurance mechanisms is necessary across the region to ensure that all citizens have adequate protection against work and life risks. Such extension will require that adapted social insurance regimes are created to offer coverage to those in self-employment or in non-standard forms of employment. In the short run, the extension of social protection coverage also requires extending social assistance either through universal entitlements or through the extension of means-tested benefit schemes. Policy options to increase the coverage include:

- **Consider extending coverage of means-tested benefits.** This might be especially important given that a large share of workers in the region are not fully covered by contribution-based schemes. Albania introduced (in 2015) a social pension for persons aged 70 years or above who have lived in Albania for the last five years but do not qualify for any pensions. The cost of the

social pension is covered by the state budget. While this is an important initiative, its adequacy is rather low (30% of the minimum wage or EUR 62 per month). Social pensions also exist in North Macedonia, at EUR 97 per month. In Kosovo, a flat-benefit social pension of EUR 100 per month covers all citizens over 65 years living in Kosovo, with women who often did not work in the past being especially reliant on it (Annex Table 8.A.3). Universal benefits are an alternative to targeted, means-tested benefits. During the COVID-19 pandemic such interventions (like the EUR 100 grant to all adult citizens in Serbia) have proven effective, as they reach categories of citizens otherwise excluded from targeted measures. However, they are also relatively blunt and costly, by nature of their untargeted nature.

- **Simplify collection of contributions, especially for self-employed workers and those who work informally.** A well-known international example are Monotax (*Monotributo*) schemes, which were used in Uruguay and other Latin American economies. Such schemes establish an institutional arrangement in which the tax collection agency and the social security institute agree on a simplified process and contribution rate to include micro-enterprises and self-employed workers in the contributory system. For small contributors, this simplified process includes better procedures for enrolment, payment of contributions and claiming benefits. The schemes are based on progressivity and include differential income categories (ILO, 2014[78]). In early 2000, most independent workers in Uruguay were excluded from social security coverage; introducing the Monotax scheme (in 2001) and its subsequent reform (in 2006) substantially increased social security coverage. The share of self-employed contributing to the Monotax schemes increased from 0.7% in 2006 to 7% in 2017 (Banco de Previsión Social, 2018[79]). Some features of the Monotax scheme (alone or their combination) could be particularly relevant in Albania and Kosovo, where very high shares of people work as self-employed and informally. For other Western Balkan economies, where payments can be monitored more easily, more administratively demanding systems could be considered which do not compound income tax and social security contributions, but simplify compliance for both, including flat payment social security regimes (such as Spain's RETA) or simplified regimes (such as France's "auto-entrepreneur", which includes a reduced payroll tax and a simplified income tax, which is not flat, but calculated as share of turnover).
- **Consider introducing youth schemes to increase formal labour market participation and provide young people with opportunities to contribute to their social security system.** Examples of such schemes are "first employment" programmes, which are essentially hiring subsidies directed at youth with no work experience and are de facto conditional on moving into formal employment. Specific examples include Mexico's *Programa Primer Empleo* and Serbia's My First Salary programme, the latter of which was implemented during the COVID-19 pandemic. To avoid deadweight loss, the OECD Jobs Strategy (OECD, 2018[27]) warns that such schemes should target low-skilled and long-term unemployed job seekers. The EU Youth Guarantee offers more sophisticated implementation forms for this concept (European Commission, 2020[80]).
- **Improve access to information and raise awareness on the importance of social insurance coverage and rights to social security for self-employed and informal workers.** Limited access to information and lack of awareness, especially on potential benefits, can result in limited uptake of various schemes. To raise awareness, the Governments in the Western Balkans could consider the following policy options: providing information in formats that are simple to grasp, disseminating information through multiple channels, and ensuring involvement of workers' and employers' organisations and civil society organisations in disseminating information to workers and employers. A comprehensive awareness-raising and communication strategy from Cabo Verde provides a good example. Their communication strategy was divided into three stages. In the first stage, a communication campaign to target self-employed workers located in urban areas was developed. In the second stage, partnerships with workers' organisations were established to enhance the outreach to independent workers. The third stage focused on establishing physical

proximity to rural workers by enhancing the presence of the social security institution in rural areas (ILO, 2021[81]).

Improve the equity impact of the social security system by addressing the tax burden and phasing out benefit increases for special interest groups.

- Consider changing the composition of labour taxation to shift some of the tax burden to other sources. This could be done by shifting healthcare insurance from social security contributions to personal income taxes, which would have several implications. First, it would reduce the burden of taxation on labour for both employers and employees: because the burden would be shared by all tax payers and also through other sources of income, everyone would pay less. Second, it would further reduce differences in fiscal treatment based on labour market status and income source, thereby weakening possible unintended tax incentives for self-employment or informal sector employment. Finally, this could help make the statutory minimum wage more effective in supporting pay for low-productivity workers (job quality), while mitigating any potential adverse effects on employment (job quantity) (OECD, 2018[27]). Such a shift would, however, entail increased taxation on groups without labour income (including, for example, pensioners) and would be regressive if the shift is towards value-added tax (VAT) or consumption taxes.
- Phase out ad-hoc pension increases that favour special interest groups. In some economies (Bosnia and Herzegovina, and Kosovo), significant pension expenses are directed towards special interest groups such as war veterans. In Kosovo, amendments (in 2016) in the law on war veteran pensions introduced a spending ceiling of 0.7% of GDP. In 2020, spending remained above that threshold, at 1.1% of GDP and still dominated expenditure on subsidies and transfers (about 20%) (IMF, 2021[82]).

Ensuring financial sustainability of the social security system is key to delivering quality services on an ongoing basis and strengthening its resilience in times of crisis.

- Recent reforms to pension systems in the region – largely through parametric reforms and, in particular, the extension of working lives – have improved their financial viability in the short term. Although the sustainability challenge is posed differently across the region, further reforms will be necessary to ensure financial sustainability beyond 10 to 15 years in most pension systems given the low ratio of contributors to pensioners. Notably, Albania, Bosnia and Herzegovina, and Serbia have among the lowest ratios in Europe. Recent reforms to limit the fiscal cost of pension systems have led to lower adequacy of pension payments, and call for systemic reforms to ensure minimum income in old age (through social pensions or minimum pension provisions) and foster retirement savings (through better implementation of complementary pillars).
- Increasing participation in the labour force and in pension systems by boosting participation of vulnerable groups, women or persons with disabilities remains key to counterbalance the demographic pressures on social protection systems and to foster social cohesion. This implies labour market interventions as discussed in Section 8.2. It also necessitates further reforms in social protection systems to enable and incentivise work by work-able disabled persons and retirement-age persons able and willing to work.

Ensuring coherence across different elements of the social protection system both in policy design and at the operational level can help avoid perverse incentives, ease the administrative burden and allow better enforcement of eligibility rules.

- Aligning eligibility rules and benefit levels across social protection and labour market programmes is important to ensure their coherence and avoid unintended perverse effects. For example out-of-work benefits that are more advantageous than unemployment benefit can reduce job-search intensity and increase the risk of long-term unemployment, fuelling an unemployment trap. Slovenia has recently aligned unemployment benefits and its key means-tested social assistance

programme to address such an issue (OECD, 2020[83]). Coherence between social protection and labour market policies is also critical in ensuring coverage across workers with different labour market histories. Informal work and emerging non-standard forms of employment can be particularly challenging in this respect (OECD, 2019[84]). Finally, reforms in social protection tend to affect its redistribution role, and require careful balance to ensure buy-in from participating agents and build the necessary consensus.

- Strengthened administration can also support fairer social protection systems. The prevalence of informal employment makes it difficult to enforce eligibility rules in systems with multiple regimes. Consolidated record-keeping and administration can greatly improve the ability of social protection system to deliver better and more fairly.

The prevalence of informal economic activity represents a significant policy challenge in the region and requires a holistic response that includes, but goes beyond, social protection policies. Effectively addressing informality can be greatly facilitated in a dynamic economy, underpinned by appropriate macroeconomic and sector policies, and requires protection measures for those workers who find themselves segmented out of formal jobs, and a combination of enforcement and promotion measures to incentivise formal employment among those opting out of formality (Jütting and de Laiglesia, 2009[85]). In the region, Kosovo and North Macedonia have mid-term strategies to address informality. They include monitoring and enforcement tools, but also improvements to the business environment, and incentives for the development of alternative forms of business organisation (cooperatives, social entrepreneurship) and incentives for formalisation. In Serbia, co-ordinated action is achieved through the National Program for Countering the Shadow Economy, which plays a similar role but has lower status in the strategic programming framework. Improvements in enforcement are particularly salient in all three cases, through multiple tools including inspectorate reform and the development of registries and electronic invoicing. Co-ordinated action can help make the most of specific improvements in enforcement by ensuring that they generate incentives for formalisation rather than contributing to destroy economic activity.

8.3.2. Strengthen targeting, equity and adequacy of social assistance for those most in need

Social assistance is an important pillar of social protection systems to reduce poverty and create opportunities for participation in society and the labour market. In designing social assistance programmes, governments of the Western Balkans should consider several policy perspectives. First, social assistance programmes should prevent and mitigate shocks that are likely to have negative impacts on the poor. This has been particularly important during the current COVID-19 pandemic. Second, social assistance should be designed as an investment in creating growth through the economic participation of vulnerable groups. Social assistance should be seen both as a tool for poverty reduction and as a means to achieve equality of opportunity (Howell, 2001[86]). The latter is particularly important in the Western Balkans, where many long-term unemployed persons and other vulnerable groups are likely beneficiaries. At present, adequacy of social assistance is often too low in these economies, as it falls short of providing people with sufficient income. Rapid integration of these groups into the labour market should therefore be a key policy priority as highlighted in the peer-learning workshops.

Social assistance schemes are limited in the Western Balkans and have a limited impact on poverty reduction. Spending on social assistance makes up a very small share of overall social protection spending across the region, ranging from 1.6% of GDP in North Macedonia to 5% in Serbia in 2016, compared with 12.1% in the EU28. Last-resort social assistance spending makes up an even smaller share and benefit levels are inadequate: social assistance programmes across the region reduced the risk of poverty by only 3.9%, half the rate observed in the European Union (OECD, 2021[5]).

Although there is a wide variety of social assistance schemes across the Western Balkans, there is a common need to increase coverage, especially for the poorest population segments. All

economies in the region have in place various non-contributory social assistance schemes, which are often topped on with various supplements and allowances. Despite differences in terms of both design and targeting, low coverage is an issue shared across all economies. Two key pro-poor social assistance schemes in Albania, economic assistance and social pensions, cover about 8.8% of the population, which is relatively low considering that in 2020 about 22% of persons lived at risk of poverty. In Bosnia and Herzegovina, large differences in access to social assistance exist between cantons (Federation of Bosnia and Herzegovina) and between municipalities (Republika Srpska); 1.9% of the total population and 6.2% of the poorest are beneficiaries of the right to permanent social assistance (Annex 8.A). Despite 18% of persons in Kosovo living in poverty in 2017, only 6% were receiving social assistance (the only programme specifically designed to protect against poverty); even in the poorest income quintile, only about 35% of households were receiving it (Haxhikadrija, 2020[87]). Major social assistance schemes in North Macedonia, including the recently adopted guaranteed minimum assistance (GMA), social pension and disability pension, cover about 3.4% of population (Barca et al., 2020[88]). Only 29 % of the poorest decile of households receive any type of social assistance in North Macedonia (ILO, 2020[89]). Serbia has two major, means-tested programmes targeting the poor: financial social assistance (FSA) and child allowance. Recent data show that FSA reaches only about 11% of the poorest quintile (UNICEF, 2019[90]).

Low coverage of social assistance should be addressed with more effective targeting and by addressing administrative barriers to obtain assistance. Albania recently undertook a major reform of its social assistance system, introducing (among other initiatives) a new targeting formula. To enable more effective targeting of the poor, the reform introduced changes in the scoring formula; given the extent of poverty, however, concerns remain that the weighting criteria still exclude a significant portion. At the time of nationwide rollout of the new formula (in 2018), about 33% of past beneficiaries were excluded (ILO, 2021[68]).[11] In Bosnia and Herzegovina, the existing system of social assistance schemes creates inequalities among citizens by favouring certain groups. In both entities, a large share of social assistance is intended for the status-based, war-veteran category, leaving only a very small share going to those in need. At the same time, means-tested benefits in Bosnia and Herzegovina are conditioned on providing an incapacity to work, which can leave out many potential beneficiaries that are in need (Obradović and Jusić, 2019[91]). Recent efforts to modernise the social assistance scheme in Kosovo target its inadequate and outdated eligibility criteria,[12] which exclude many in need. Despite strict eligibility rules, targeting outcomes are weak: only 68% of assistance went to the poorest quintile in 2016 (Government of Kosovo, 2019[92]). Thanks to reform in 2019, which raised the previous guaranteed minimum income threshold that excluded many people, North Macedonia's social assistance is estimated to reach 50% more households (Gerovska Mitev, 2019[93]). In Serbia, property census and complex administrative procedures seem to explain low take-up of social assistance. Individuals who own more than a basic living area (defined as one room per family member) and agricultural land of 0.5 hectares are not entitled to financial social assistance, unless this property is mortgaged for valorisation of cash benefits. Likewise, applicants are required to submit substantial documentation, which might be a high burden for some segments of population, including Roma, many of whom do not have birth certificates (Vuković, 2014[94])

The regional economies should carefully assess adequacy of benefits to ensure impact on poverty. Comparing adequacy levels[13] across various social assistance schemes in the Western Balkans shows that benefit levels are significantly below the poverty threshold (Annex 8.A). In Albania, the current average economic assistance payment of EUR 37 per month accounts for only about 14.7% of the at-risk-of-poverty threshold for a single-person household, and thus does not provide adequate support to persons in need. In Bosnia and Herzegovina, small variations exist between entities: in Republika Srpska, permanent social assistance is at 66.4% of the at-risk-of-poverty threshold for a single-person household; at 54.2%, it is even lower in the Federation of Bosnia and Herzegovina. In Kosovo, financial assistance covers only 39% of beneficiaries' basic consumption needs. In North Macedonia, social assistance reduces poverty by only about 3 percentage points – very low against the 16 percentage points of poverty reduction associated with expenditure on pensions. In Serbia, transfers are also inadequate, especially for smaller families as

the current support setup favours mainly large families; the rather generous child allowance is awarded in equal amounts to each of the first four children.

Policy options for strengthening adequacy, coverage and labour market integration of social assistance beneficiaries

To foster social cohesion through social assistance, the regional economies should assess adequacy of social assistance schemes, increase coverage and improve targeting, and integrate vulnerable groups into the labour market.

Assessing adequacy of social assistance, and increasing the benefit amount where appropriate, can foster social cohesion by reducing poverty among the most vulnerable. According to ILO Recommendation (No. 202) (ILO, 2020[95]), cash and various in-kind benefits should at minimum secure protection against poverty, vulnerability and social exclusion. Further, minimum cash benefits can be considered as adequate if and when they provide beneficiaries with means corresponding to national poverty lines.

Increasing coverage and improving targeting should ensure that no one is left behind. Some specific policy options can include simplifying administrative procedures and streamlining enrolment, and, where appropriate, revising eligibility thresholds and exclusion criteria.

Improving linkages with local government, local communities and ALMPs can increase opportunities to participate in society and in the labour market. Creating such linkages can be achieved through community-integrated social services (Section 8.3.3).

- Local governments and local communities, which play a key role in increasing social cohesion by providing quality social care services, require strong capabilities in terms of organisation, incentives and funding.
- ALMPs should play a key role of bringing social assistance recipients into the labour market. They often require increased collaboration between PES and social workers responsible for administering social security benefits. Such programmes could be designed, including adapted trainings and vocational courses, specifically for individuals and families who are benefitting from cash assistance.

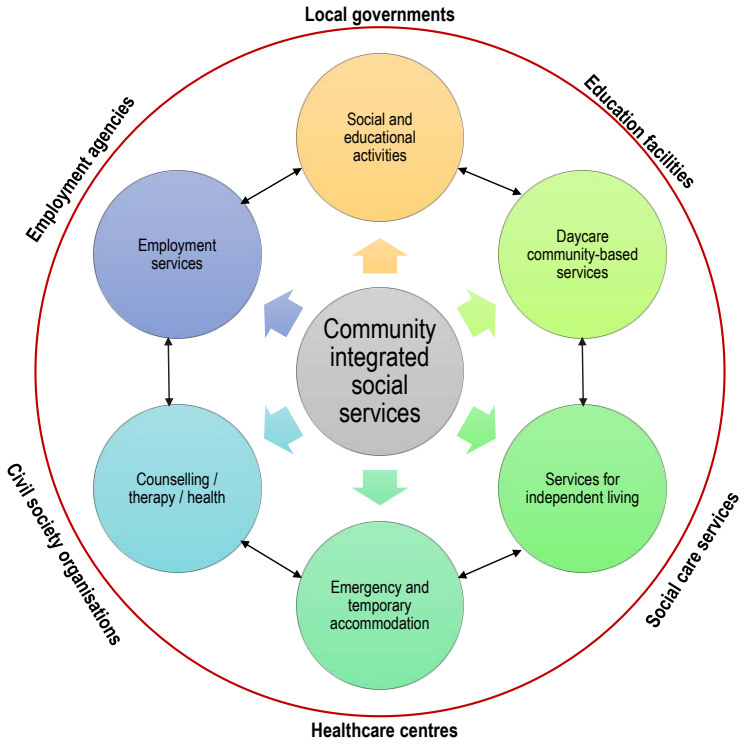
8.3.3. Deliver community-integrated social services

Establishing community-integrated social services is one of the key policy priorities that emerged from the peer-learning workshops. Community-integrated social services encompass a range of approaches and methods for achieving greater co-ordination and effectiveness between different services – such as elderly care, healthcare, education and others – with the aim of improving outcomes for services users[14] (Figure 8.13). During the OECD peer-learning workshop, participants stressed the importance of community-integrated services as a key lever to strengthen social protection, deliver social care services and reduce long-term dependency on social welfare through better labour market integration.

Integrating social services provision can support efficiency and help address situations of complex needs, such as of the elderly, marginalised and long-term recipients of social assistance detached from the labour market. First, having integrated social services can lead to provision of higher quality services. Integrated elderly and healthcare, for example, can improve outcomes for older persons. Better integration of social services can reduce social exclusion of marginalised and geographically secluded persons, including through increased availability of specialised services (such as shelters) and more opportunities for social integration through education, especially when some services are lacking in some communities. Second, integration may also be more cost-effective, avoiding duplication of efforts and ensuring that each institution does what it does the best. Finally, integrated social services can be an

effective way of bringing long-term unemployed and vulnerable people into the labour market, thus reducing their welfare dependency. Given the extent of issues hampering social cohesion at the local level, provision of community-integrated social services is especially important in the Western Balkans (OECD, 2021[5]).

Figure 8.13. Creating community-integrated social services in the Western Balkans



Source: Authors' elaboration.

The Western Balkan economies have a fragmented landscape of social services. Limited partnerships between key local stakeholders is often cited as a main challenge hampering the social welfare system in the region. In Albania, about 6 out of 61 municipalities have no social services.[15] In Bosnia and Herzegovina most of the funds dedicated for social care (94%) go to financing institutional care, while other social services are underdeveloped (Sucur-Janjetovic, Kurta and Oruc, 2018[96]). In Kosovo, significant variation exists in the availability of social services across municipalities. Many municipalities also lack accurate data on population, which has negative impacts on planning and implementing activities (Mehmeti, 2018[97]). In North Macedonia, centres for social work and employment centres are normally physically situated together; however, lack of formal procedures and standards for mutual co-operation prevents them from collaborating (Petreski and Petreski, 2018[98]). In Serbia, social care services are still insufficiently available and unevenly developed. Homecare for the elderly and daycare centres for children with disabilities dominate social care services; others are available only in bigger cities (Matković, 2018[99]).

Local government should be on the front line of delivering community-integrated services in the region. Across the Western Balkans, local governments have the primary responsibility for publicly funded social care, such as providing information and advice, assessing care needs, arranging support for vulnerable individuals and commissioning a large range of care services to fulfil their obligations (CWC,

2019[100]). Over the last decades, decentralisation processes have given local governments greater responsibilities over social care services (Table 8.7).

Weak capacities hamper local governments from establishing effective community-integrated social services. Availability of financial means for local governments to implement and co-ordinate social services is one of the key challenges in establishing community-integrated social services. Often, resources available do not match with increasing levels of obligation (Figure 8.14 – Panel A). In some economies, shortage of local resources is evened out through transfers from the central government, including block and investment grants (Figure 8.14 – Panel B). However, some of these transfers are earmarked and therefore may not allow local government to assign resources according to needs. In turn, this undermines the subsidiarity principle, as per which higher level authorities should not intervene if issues can be dealt with effectively by lower levels of government (typically local authorities) (OECD, 2021[5]). An additional issue is that reliance on conditional transfers is uneven across local government: large cities can usually rely on a larger share of their own resources, which they can spend as they want. Secondary cities and rural areas cannot "tap" as much on local tax base, which is often shrinking under the pressure of depopulation, ageing, informality and other challenges. Other issues include highly dispersed or remote settlements in which potential beneficiaries live, and insufficient local government awareness of competencies needed in some areas of social protection.

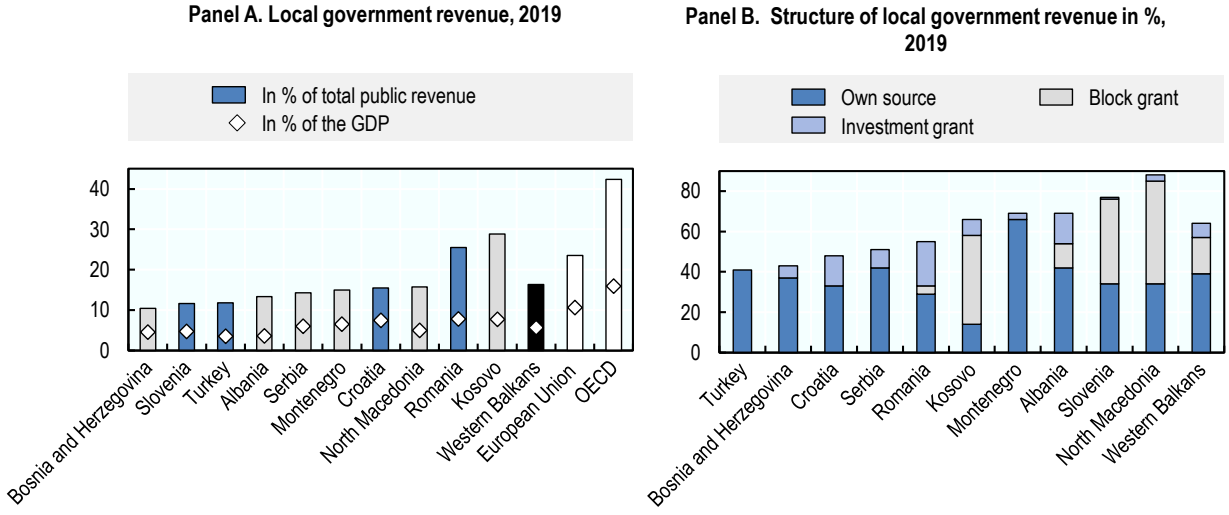
Table 8.7. Decentralisation processes have increased the responsibilities of local governments with regard to social services

	Albania	Bosnia and Herzegovina (FBIH)	Bosnia and Herzegovina (RS)	Kosovo	North Macedonia	Serbia
Maintenance of pre-school facilities	●	●	●	●	●	●
Payment of pre-school wages	●	●	●	●	●	●
Maintenance of orphanages	●	●	●	●		
Payment of wages in orphanages	●		●	●		
Maintenance of homes for the elderly	●	●		●	●	
Payment of wages in homes for the elderly	●			●	●	
Maintenance of homes for people with disabilities	●	●	●			●
Payment of wages in homes for people with disabilities	●		●			●
Social welfare payments made to Individuals or households	●	●	●			●

Note: Green = decentralised; orange = shared; yellow = voluntary responsibilities.
Source: Authors' elaboration based on NALAS (2018[101]), Fiscal Decentralization Indicators for South-East Europe, http://www.nalas.eu/knowledge-center/Fiscal-Decentralization-Indicators-for-South-East-Europe.

Figure 8.14. Despite the decentralisation process, local revenues as a share of total public revenues remain low

Local government revenue, 2019 (Panel A), and structure of local government revenue, 2019 (Panel B)



Note: The OECD average in Panel A corresponds to the OECD-35. Data for OECD-35 include also intermediary and regional governments, while data for the EU-28 include only the municipal government level.
Source: NALAS (2020[102]), Local government finance indicators in South-East Europe: Statistical Brief 2020, http://www.nalas.eu/Publications/Books/Brief_2nd.

StatLink https://stat.link/il73y9

Policy options for providing community-integrated and adequate social services for marginalised groups

Key preconditions for creating effective community-integrated social services are understanding the local needs of all beneficiaries, establishing shared objectives, securing commitments from all the relevant partners, setting a clear framework of responsibilities, ensuring adequate funding for local governments, and applying technological and digital solutions that can foster data sharing and facilitate collaboration.

Improving collection of population data and conducting related research is necessary for understanding the needs of people and local communities, and for providing targeted services. Across the region, estimates of the number of residents are generally based on often outdated census data and civil registration offices, which might not factor in migration flows within individual economies and abroad. As such, the current system of resource redistribution may underestimate local service users and exacerbate – rather than reduce – territorial inequalities. Likewise, missing census data might have implications for designing gender-sensitive and inclusive social and economic policies, especially during COVID-19 recovery. The implementation of the 2021 Census of Population and Housing in North Macedonia (the last census was carried out in 2002) is a significant milestone in this regard. High-frequency demographic data collection could help fine-tune the system. A second option could involve integrating geospatial data into administrative data to create a census, as is currently being explored in the Slovak Republic (Gabris, 2019[120]). Such data should also facilitate evidence-based policy making by enabling the evaluation of policies from an early stage. While existing good practices and international evidence can guide policy reforms and the design of instruments, country and population group specificities make each reform of social protection and labour market policy unique. For this reason, new policies and programmes need to be systematically and rigorously assessed (OECD, 2018[27]).

Improving co-ordination among different stakeholders is key to create shared objectives, ensure commitments of all partners, and set a framework of responsibilities. Beyond one local community, inter-municipal co-operation can make the provision of certain social services more efficient, especially in terms of sharing services. This would be particularly important for areas where some services are missing. Within local communities, it would be important to understand the potential availability of all relevant stakeholders and to support their efforts in data sharing and implementing social services. Key stakeholders that should be involved include social care services, NGOs, educational institutions, healthcare centers, local PES and others. NGOs, especially, can play an important role in providing social care services at the local level, particularly in those municipalities where social services are lacking.

Revising fiscal space of local self-governments. One option to help ensure adequate funding is to revise the mechanism of conditional grants allocation: for example, regulations could stipulate that disbursement be made conditional on achievement of certain targets, thus leaving municipalities more freedom to allocate resources. Establishing independent watchdogs of intergovernmental relationships (e.g. independent fiscal institutions [IFIs] based on OECD guidelines) with a mandate to oversee intergovernmental transfers and provide a level of *ex ante* control is another option that would enable relaxing strict rules on directed spending (e.g earmarked grants) so as to allow greater freedom at the local level. IFIs have this role in some OECD countries such as Belgium or Mexico (von Trapp, Lienert and Wehner, 2016[103]).

Digitalisation and adoption of technological solutions can streamline the implementation of services, decrease costs and foster collaboration. The COVID-19 pandemic, with its global shift to teleworking and digitalised services, has accelerated digitalisation. At a time when resilience requires the ability to keep an economy going while imposing physical distance between people, digitalisation is essential. The biggest potential of digitalisation might be in transforming governments and public service delivery. Inefficient government structures and lack of capacity for service delivery, especially at the local level, have been identified as major constraints to development in all initial assessments. Better governance and services were also among the top dimensions in all future visions. Examples of early-adopting economies, such as Estonia, show that digitalisation can help re-engineer structures of the public administration for higher performance at lower cost (OECD, 2021[5]).

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Annex 8.A. Key social assistance schemes in the Western Balkans

Annex Table 8.A.1. Overview of social assistance schemes in Albania

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
Economic assistance (Ndihma Ekonomike)	Means-tested	• Families without sufficient income • Orphans not in social care institutions • Parents with more than 2 children born at the same time • Victims of trafficking • Victims of domestic violence	8.7% of population in 2019 (ILO, 2021[104])	• 5 years (maximum)	• Monthly cash benefits (EUR 40.7 for four-member household and EUR 63.8 for household with seven or more members) and benefits in kind (ILO, 2021[68]) • Beneficiary families with young children receive additional monthly subsidies under certain conditions related to immunisation and education.	0.21% in 2019 (ILO, 2021[104])	• 14.7% for single person household • 17.13% for four-members household • Maximum poverty reduction by 0.8 percentage points (Ymeri, 2019[67])	• Obligation to register at the NAES • Lack of exit strategy following 5-year expiration
Social pension	Means-tested	• For persons aged 70 years or above and have lived in Albania for the last 5 years and who do not qualify for any pensions (Ymeri, 2019[67])	0.08% (2 415 persons) in 2016 (Ymeri, 2019[67])		• EUR 62 in 2019 (ILO, 2021[68])	0.01% in 2016 (Ymeri, 2019[67])	• 55.6%	

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
Disability allowance	Health check	• Persons not qualified for social insurance disability or employment injury pensions • Persons not able to work (ILO, 2021[68])	5.5% (156 934 persons) in 2015 (Ymeri, 2019[67])	• Duration before re-assessment depends on respective disability scheme (UNSSIA, 2014[105])	• Monthly disability allowance of EUR 90 for non-work related disabilities, EUR 85 for paraplegic or quadriplegic, and EUR 96 for blind. • The same amount is given to caregivers under certain conditions. • Persons with disabilities attending education and training may receive up to triple the amount (ILO, 2021[68])	1% in 2018 (Ymeri, 2019[67])	• 81.0%	

Note: Adequacy calculations have as basis the at-risk-of-poverty threshold (60% of median equivalised income) for a single person household, if not otherwise defined. The four-member household basis is the at-risk-of-poverty threshold for two adults with two children younger than 14 years, as defined by Eurostat.

Annex Table 8.A.2. Overview of social assistance schemes in Bosnia and Herzegovina

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
War veterans pension	Status-based		• 4.2% (51 727) in Republika Srpska in 2018 (OECD, 2021[28])			3% in 2020 (Swiss Agency for Development and Cooperation and UNDP, 2021[106])		
Permanent social assistance	Means-tested	• Republika Srpska: Vulnerable households with no person who is able to work and with dependents. Varies depending on a household size. (World Bank, 2020[107]) • Federation of Bosnia and Herzegovina: person is unable to work or is prevented from enjoying the right to work; person does not make enough revenues for subsistence, person has no family member obliged by law to support him/her, or if the family member is unable to perform such obligation	Bosnia and Herzegovina (state-level) • 1.9% of the total population (World Bank, 2020[107]) • 6.2% of the poorest are beneficiaries (World Bank, 2020[107])		• Republika Srpska (World Bank, 2020[107]) – One person household: EUR 67 – 2 persons household: EUR 93 – 3 persons household: EUR 111 – 4 persons household: EUR 125 – 5 or more persons household: EUR 139 • Federation of Bosnia and Herzegovina (average across cantons) (World Bank, 2020[107]): EUR: 57 EUR	1-1.2% in 2020 (Swiss Agency for Development and Cooperation and UNDP, 2021[106])	Republika Srpska: • 66.4% for single person household • 56.9% for four-members household Federation of Bosnia and Herzegovina: • 54.2% for single person household • 25.8% for four-members household	

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
Disability allowance			• Republika Srpska: 0.23% (5 000 beneficiaries) in 2019 (World Bank, 2020[107])		• Republika Srpska (World Bank, 2020[107]) – 15% of the base for a person with 100% bodily damage – EUR 69 – 13% of the base for a person with 90% bodily damage – EUR 60 – 11% of the base for a person with 80% bodily damage – EUR 51 – 9% of the base for a person with 70% bodily damage – EUR 42 • Federation of Bosnia and Herzegovina (World Bank, 2020[107]): EUR 50		• Republika Srpska: 53.1% • Federation of Bosnia and Herzegovina: 47.8%	

Note: Adequacy calculations have as basis the at-risk-of-poverty threshold (60% of median equivalised income) for a single person household, if not otherwise defined. The four-member household basis is the at-risk-of-poverty threshold for two adults with two children younger than 14 years, as defined by Eurostat. For the Federation of Bosnia and Herzegovina only the cross-cantonal average value of permanent social assistance is available, thus the adequacy calculation overestimates the value for a single person household and likely underestimates the value for a household with four members.

Annex Table 8.A.3. Overview of social assistance schemes in Kosovo

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
Social Assistance Scheme	Means-tested	• Category I: all family members are dependent and none is employed (World Bank, 2019[108]), • Category II: families can have one family member who is able to work but must be registered as unemployed with the Employment Office. All other family members must be dependent, plus the family must be parenting at least one child under the age of 5 or providing permanent care for an orphan under the age of 15) (World Bank, 2019[108]).	• 5.9 % (106 628 persons) in 2017 (World Bank, 2019[108]) • Covers only 35% of families in the poorest quintile (Government of Kosovo, 2019[92])	• 12 months for Category I beneficiaries, 6 months for Category II. Possibility of a renewal (World Bank, 2019[108])	• Fixed amount from EUR 60 for a one-member family, EUR 97.5 for four-member family, up to EUR 128 for a family/ household of 15 members (World Bank, 2019[108]) • Plus adding EUR 5 to the monthly amount for each additional person for households with 3 or more household members; and a monthly child allowance of an additional EUR 5 for each child under 18 years (World Bank, 2019[108])	0.47 % of GDP in 2020 (Haxhikadrija, 2020[87])	• 58.3% for single person household • 45.1% for four-members household • Impact on poverty reduction in 2016 was 1.9 percentage points (Government of Kosovo, 2019[92])	
Basic universal pension	Universal	• All citizens over 65 years residing in Kosovo (World Bank, 2020[109])	• 142 058 beneficiaries in 2020 (Ministry of Finance Kosovo, 2020[110])	• Lifetime benefit (World Bank, 2020[109])	• Flat benefit of EUR 100 per month (Gashi, 2021[111])	2.43% of GDP in 2020 (IMF, 2021[82])	• 97.2% • Benefit amount connected to equivalised national extreme poverty line measured in terms of food consumption by law (Mustafa, 2021[112])	• Can be received together with other pension schemes (World Bank, 2020[109])

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
War veterans pension	Status-based	• War veterans active until end of war, regardless of age (IMF, 2021[82])	• 38 156 in 2020 (Ministry of Finance Kosovo, 2020[110])	• By law only in times of unemployment since 2016, but in practice not (IMF, 2021[82])	• EUR 170 per month (IMF, 2021[82])	1.1% of GDP in 2020 (irrespective legislative cap of 0.7%) (IMF, 2021[82])	• 165.2%	• Can be received together with other pension schemes (IMF, 2021[82])

Note: Adequacy calculations have as basis the at-risk-of-poverty threshold (60% of median equivalised income) for a single person household, if not otherwise defined. The four-member household basis is the at-risk-of-poverty threshold for two adults with two children younger than 14 years, as defined by Eurostat.

Annex Table 8.A.4. Overview of social assistance schemes in North Macedonia

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
Guaranteed Minimum Assistance	Means-tested	• Granted to a household with material uncertainty that does not possess any earning generating property and property rights (Barca et al., 2020[88]) • The amount of the right to the guaranteed minimum assistance is calculated on the basis for one member of the household, increased by the unit of equivalent scale for the other members of the household, and at most for a total of five members in the household (Finance Think, 2020[113]).	1.47% (30 708 adult beneficiaries) in 2019 (Barca et al., 2020[88])		• The base for the guaranteed minimum income is EUR 65, and for each next adult member and child in the household the base increases according to an equivalent scale. The benefit size is the deviation from the total average monthly income of all households bases from the last 3 months and the calculated guaranteed minimum household income (Finance Think, 2020[113]).		• 47.6% for single person household • 52.2% for four-members household	• Can be received together with most other social assistance supplements and/or allowances. • Employable household members are linked to labour activation programmes and beneficiary households also receive energy supplements and preferential access to kindergartens
Permanent cash assistance	Means-tested	• Caregiver who has cared for a family member (for at least 15 years) and single parent who has cared for a child with disability (age 62+ for women, and 64+ for men) (Barca et al., 2020[88]) • Only for persons unemployed and not receiving a pension (Barca et al., 2020[88])			• EUR 130 per month (Barca et al., 2020[88])		• 95.4%	

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
Social pension	Means-tested	• Only one person per household, if no property owned, no income and domiciled 15+ years (age 65+) (Barca et al., 2020[88])	0.34 % (7 142 persons) in 2019 (Barca et al., 2020[88])		• EUR 97 per month (Barca et al., 2020[88])		• 71%	• Linked to energy allowance in winter months and free public sector healthcare
Disability supplement & pension	Not means-tested	• Supplement for those aged 26-65 • Pension for person that has contributed and has permanently lost more than half of the ability to work, or has reached the age of 50+ and has permanently lost the ability to work (Barca et al., 2020[88])	Supplement : 0.58% of population (11 051 persons) in 2019 Pension:1.55% (32 319 persons) in 2019 (Barca et al., 2020[88])		• Supplement 4 117 denars (EUR 66) or 7 204 denars (EUR 116) depending on disability in 2019 • Pensions varies		Supplement: between 48.8 and 85, depending on disability	• Can be received with GMA • Pension: Not explicitly

Note: Adequacy calculations have as basis the at-risk-of-poverty threshold (60% of median equivalised income) for a single person household, if not otherwise defined. The four-member household basis is the at-risk-of-poverty threshold for two adults with two children younger than 14 years, as defined by Eurostat.

Annex Table 8.A.5. Overview of social assistance schemes in Serbia

Schemes	Type	Eligibility criteria	Coverage	Duration	Benefits	Spending (% of GDP)	Adequacy (in relation to the at-risk-of-poverty threshold, monthly)	Linkages with other programmes
Financial social assistance	Means-tested	• Persons able to work, persons unable to work, children	• 3.76% (260 persons (in 2017) (UNICEF, 2019[90]) • Reaching only 11% of the poorest quintile (UNICEF, 2019[90]) • Coverage among Roma was higher (63.8% of the poorest quintile) (UNICEF, 2019[90])	• 9 months per year for persons capable of working (no support during summer months to incentives part-time work) • 12 months for persons incapable of working • Application may be resubmitted (Vuković, 2014[94])	• In 2019, the monthly income limit for FSA eligibility was EUR 72 (RSD 8 465) per household member (Stokic and Bajec, 2020[114])	• 0.33% of GDP in 2017 (UNICEF, 2019[90])	• 43.9% for single person household • 52.3% for four-members household	• Financial social assistance recipients are also eligible for additional benefits, e.g. reduction in monthly electricity or gas bills, health care and also child allowance if the child attends school regularly (UNICEF, 2019[90]) • No well-established links to activation policies (lack of relevant laws and bylaws)
Child allowance	Means-tested	• Awarded in equal amounts to the first four children in the family, subject to a means test and conditional upon regular school attendance. • Children in single-parent families receive a 30% supplement while children with disabilities receive a 50% supplement (UNICEF, 2019[90]).	4.87% (342 238 children and youth, in 2017 (UNICEF, 2019[90]).	• The age limit for child allowance is set at 19 years and, as an exception, 26 years for children with disabilities. (UNICEF, 2019[90])	In 2019, the monthly income limit for eligibility for child benefit was EUR 78 (RSD 9 135) per household member. (Stokic and Bajec, 2020[114]) In 2017, the monthly basic amount was EUR 23 (RSD 2 734) (Government of the Republic of Serbia, 2018[115])	0.28% of GDP in 2017 (UNICEF, 2019[90])	• 14.0%	• Child allowance and Financial social assistance can be received at the same time

Note: Adequacy calculations have as basis the at-risk-of-poverty threshold (60% of median equivalised income) for a single person household, if not otherwise defined. The four-member household basis is the at-risk-of-poverty threshold for two adults with two children younger than 14 years, as defined by Eurostat.

Notes

[1] Equivalised disposable income is the total income of a household, after tax and other deductions, that is available for spending or saving. To reflect differences in a household's size and composition, the total (net) household income is divided by the number of "equivalent adults", using a standard OECD equivalence scale. This scale gives a weight to all members of the household, then adds these up to arrive at the equivalised household size (Eurostat, 2021[13]).

[2] Active labour market policies traditionally include different types of interventions: (i) matching job seekers with current vacancies; (ii) upgrading and adapting job seekers' skills; (iii) providing employment subsidies; and (iv) creating jobs either through public sector employment or the provision of subsidies for private sector work.

[3] Category 2 (training) aims to improve employability through training for target groups, including institutional training, workplace training, and special support for apprenticeship offering formal qualifications (incentives to recruit apprentices or training allowances for disadvantaged groups). Categories 3 and 4 (employment incentives) include subsidies covering labour costs for employers to encourage recruitment or prevent potential job losses. Category 5 (sheltered and supported employment and rehabilitation) aims to integrate persons with reduced work capacity, primarily those with disabilities, into the labour market through subsidies or rehabilitation measures to adjust to their disability such that they can then move on to work. Category 6 (direct job creation) covers non-market jobs that have been additionally created for community benefit or social use for hard-to-place job seekers. Category 7 (start-up incentives) includes measures that promote entrepreneurship through assistance in the form of targeted financial support, advice in form of targeted training and other interventions (European Commission, 2018[26]).

[4] Republika Srpska changed the law on health insurance, whereby persons are covered by health insurance only for the duration of receiving unemployment benefits.

[5] Data for Kosovo are for 2016; Albania and North Macedonia, for 2017; Bosnia and Herzegovina, Serbia and the EU, for 2018.

[6] Analysis relying on survey data estimates that only about 10% of the Serbian population over retirement age does not receive a pension (European Centre for Social Welfare Policy and Research, 2021[117]). The two figures can be reconciled by the relatively wide use of early retirement schemes in Serbia and by accounting for survivor and disability pensions, on top of old-age pensions alone.

[7] The tax wedge is defined as the ratio between the amount of taxes paid by an average single worker (a single person at 100% of average earnings) without children and the corresponding total labour cost for the employer. The average tax wedge is measured in percentage of labour cost.

[8] Progressivity of labour taxation is calculated as the percentage point increase in the tax wedge between workers earning 67% of the average wage to workers earning 167% of the average wage (World Bank/WIIW, 2019[60]).

[9] In terms of the progressivity of labour taxation, Albania is close to the EU and the OECD average, with tax wedge increasing by 6.5 percentage points between workers that earn 67% of the average wage to workers that earn 167% of the average wage.

[10] Pillar I (Statutory pension schemes) is financed out of government revenue and managed by the government; Pillar II (a statutory funded scheme of individual pension savings) is managed by the Kosovo Pension Savings Trust (KPST), which is an autonomous body created by Parliament; and Pillar III are supplementary pension schemes.

[11] Comparison of socio-economic characteristics between the eligible household and non-eligible households based on a similar sample size (690 and 696, respectively), reveals only small differences between households selected and those not admitted to the programme with regards to income, assets and access to services.

[12] Categorical requirements for all family members unable to work, maximum one unemployed member with a child under five years, and absence of formal income (Haxhikadrija, 2020[87]).

[13] For the purpose of this chapter, adequacy is measured by the size of the transfer relative to the at-risk-of-poverty threshold (60% of median equivalised income) for a single-person household and for a four-person household with two adults and two children, see Annex 8.A.

[14] Definition from the Council of Europe (2007[116]).

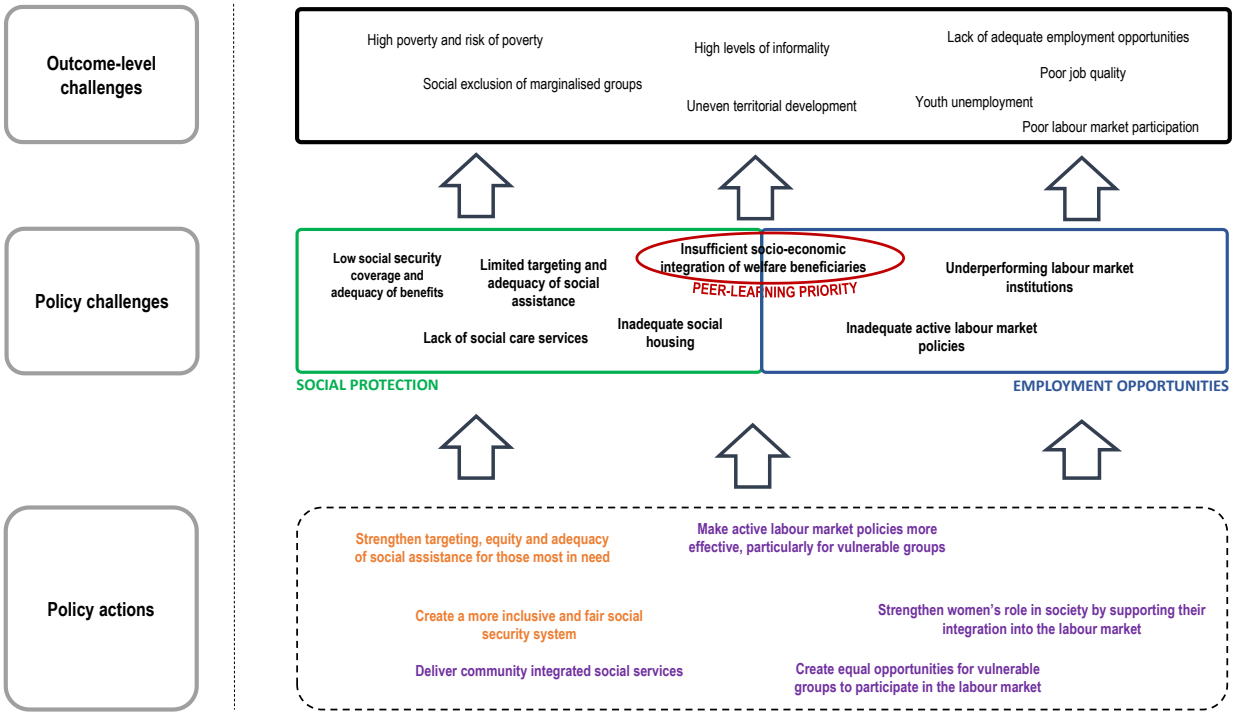
[15] Information provided by Ministry of Health and Social Protection in Albania.

9 Fostering social cohesion in Albania

Over recent decades, Albania has made remarkable progress in increasing the well-being of its citizens. With rising gross domestic product per capita and higher household consumption, the share of materially deprived households has been decreasing. In turn, extreme poverty is very low and life expectancy is increasing. To sustain the progress in building a socially cohesive society, this chapter puts forward priorities to foster social cohesion through labour market and social protection policies. Action is needed to create employment opportunities and conditions for Albanians from ethnic minorities and vulnerable groups, including citizens with disabilities, to join the labour force. Recently, Albania has put in place a comprehensive set of social protection programmes; however, unequal coverage and generosity leave many vulnerable citizens without sufficient social security. A shift towards community-integrated social services, managed at the local level, has been initiated through legislative reform. Providing those most in need with pathways to integrate into society and the labour market is a key priority for Albania. Aligning social protection and labour policies and programmes in design and operationally is an important step to respond to this challenge.

Key elements of social cohesion ranked very high in Albania in the Initial Assessment of this Multi-dimensional Review of the Western Balkans, including good governance and strong institutions, rule of law, regional co-operation, and empowered youth. A socially cohesive society is a society that creates the ability and willingness of its members to undertake collective action for the improvement of societal well-being of all its members. Building on the Initial Assessment, the "From Analysis to Action" phase of the project provides suggestions to foster social cohesion in Albania and in other economies of the Western Balkans. The peer-learning workshops on social cohesion (Box 8.1. of Chapter 8), an integral part of the project's second phase, served three complementary processes: to identify problems hampering social cohesion, to identify key policy challenges, and to put forward key policy priorities for Albania and for the region (Figure 9.1).

Figure 9.1. Achieving social cohesion in Albania and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Over the last 30 years, Albania has made remarkable progress in becoming a democratic society with a functional, open-market economy, thereby increasing the well-being of its citizens. Productivity growth across all sectors has improved employment, incomes and standards of living. The employment rate increased from 47.5% in 2010 to 52.5% in 2020 – the highest in the Western Balkans (Figure 8.1 of Chapter 8). With rising GDP per capita and household consumption, the share of materially deprived households has been decreasing (OECD, 2021[1]). With rising living standards, many Albanians have been able to afford more goods and services. In 2019, the share of Albanian households owning digital devices (60%) had doubled compared to 2016 (33.2%) (INSTAT, 2020[2]). While deprivations remain, extreme poverty is very low and life expectancy is increasing. Institutional development and global integration have also progressed.

To sustain the pace of building a socially cohesive society, Albania must now tackle a set of important problems that remain (Figure 9.1). Notwithstanding positive employment performance, labour markets in Albania continue to face structural challenges. Due to a lack of quality jobs, high youth and

long-term unemployment, and many vulnerable persons not working, the labour market currently strains citizens' ability to support each other and creates great pressure on the social protection system (see Chapter 8). Social exclusion and inequality remain issues. Findings from the latest round of the European Union Statistics on Income and Living Conditions (EU-SILC) survey show inequality in Albania above the regional average, with close to 40% of households being severely materially deprived. Some 21.8% of the population was at risk of poverty in 2020 (Eurostat, 2021[3]). Poverty particularly affects the unemployed, the low-skilled, people in rural areas, vulnerable women, people with disabilities, and Roma and Egyptian minorities. Although inequalities are relatively high in Albania, they are buffered to some extent by social policies. At 39.9, the Gini coefficient, based on disposable income, is high for the region. Nevertheless, existing social policies and redistributive measures play a more effective role than in many other developing countries. Without such policies, pure market-based inequality would reach 47.4 (OECD, 2021[1]).

Labour market policies and social protection constitute two complementary policy areas to address specific policy challenges hampering social cohesion in Albania, especially insufficient socio-economic integration of welfare beneficiaries – the key peer-learning priority. The complementarity stems from the way the two policy areas interact and reinforce each other. Employment opportunities provide people with income and prospects for personal development, while reducing financial pressures on the social protection system, thus providing room to improve its quality. Social protection matters for reducing poverty and inequalities and serves as a safety net and support system. Co-ordinated policy efforts that create adequate employment opportunities, and put in place an effective and fair social protection system, may address the key elements that will lead to a cohesive society – i.e. create opportunities for participation, generate a sense of belonging and promote trust among people, and fight against exclusion and marginalisation.

Six priority actions have a great potential to ensure rapid socio-economic integration of welfare beneficiaries, and strengthen other areas that can foster social cohesion in Albania:

- Make active labour market policies more effective, particularly for vulnerable groups
- Create equal opportunities for vulnerable groups to participate in the labour market.
- Strengthen women's role in society by supporting their integration into the labour market.
- Create a more inclusive and fair social security system**.**
- Strengthen targeting, equity and adequacy of social assistance for those most in need.
- Deliver social services through a community integrated approach**.**

This chapter is divided into four sections. Sections 9.1 and 9.2 provide policy implications for Albania across the six policy actions through a prism of challenges specific to Albania. Section 9.3 zooms in on the key policy priority selected and further developed by the peer-learning participants from Albania: *Socio-economic integration of welfare beneficiaries,* and provides indicators against which policy progress in implementing all the policy priorities for Albania can be measured. This chapter is complemented by the regional chapter on social cohesion (Chapter 8), which provides more specific policy options for the six action areas, based on international practices that may be applied (albeit to different degrees) also to Albania.

9.1. Supporting people in Albania to find opportunities in the labour market

9.1.1. Make active labour market policies more effective, especially for vulnerable groups

High long-term unemployment and a lack of employment opportunities for people that had no prior job experience calls for well-targeted ALMPs. In 2019, about 64.3% of the unemployed were long-term unemployed (Figure 8.2 of Chapter 8). Many young and many from vulnerable groups, including Roma and Egyptians, do not participate in employment, education or training, with many having no or very limited

work experience (Figures 8.3 and 8.7 of Chapter 8). Poor labour market integration of vulnerable people can lead to loss of skills, long-term reliance on welfare assistance and emigration. The young face particularly dire situations when it comes to school-to-work transitions. The young often work without adequate contracts and an estimated 52.6% of those aged 15-24 worked informally in 2019 (World Bank/WIIW, 2021[4]). Strengthening pre-university career orientation and providing additional support to young graduates to become entrepreneurs could favour better matching between graduate skills and labour market needs and improve employment prospects. One pillar of the recently approved National Employment and Skills Strategy 2019-2022 seeks to improve the quality vocational education and training (VET) and to provide more training to youth.

To increase the impact ALMPs in Albania, it is imperative to increase their coverage among the most vulnerable groups. The low share of registered unemployed participating in ALMPs (7.4% in 2018), indicates significant scope to increase coverage. (Table 8.3 in Chapter 8). Similarly, participation in employment promotion programmes, Albania's key national activation measures, varies among different groups. Of 2 822 participants in 2020 (3.4% of all registered job seekers), about 40% were young (1 121 job seekers), 12% long-term unemployed (336 job seekers), and 4% Roma and Egyptians (111 job seekers) (Ministry of Finance and Economy, 2021[5]). Although social assistance beneficiaries are expected to register with the National Agency of Employment and Skills (NAES), to actively look for jobs and to participate in various activation measures, current results are not encouraging. While the recipients of economic assistance benefits are largely people with low levels of educational attainment and, even though in 2015, about 54% of employment opportunities offered at the public employment agency were low-skilled jobs, yet only 5.8% of these jobs went to economic assistance recipients (UNICEF, 2019[6]). Scope also exists to increase efforts to enable labour market participation of disability allowance beneficiaries. Currently, only about 1% of disability allowance recipients (25 persons) participate in employment promotion programmes (Ministry of Finance and Economy, 2021[5]). This is very low considering that people with disabilities make up about 6.2% of the overall population, based on the 2011 census (Government of Albania, 2016[7]). The importance of implementing employment promotion programmes aimed at vulnerable groups was also stressed by the peer-learning participants from Albania as a means to reduce unemployment duration and the number of persons who live on welfare support (Table 9.1).

Effective implementation of ALMPs requires adequate capacities at the NAES and better collaboration with other stakeholders, including the private sector, social care services and non-governmental organisations (NGOs). The effectiveness of ALMPs is further limited by the workload at the NEAS, where the number of job seekers per counsellor is about 329. While this is the lowest client-to-staff ratio in the region (Table 8.4 of Chapter 8), it remains high in comparison to international benchmarks (e.g. Slovenia has a ratio of 1:137), hampering the agency's efforts to focus on hard-to-employ persons. NAES staff is also responsible for registering economic assistance recipients (means-tested benefit scheme) as unemployed, which further accentuates the administrative burden. Recent estimates show that even though about ten formal jobs are available per unemployed person, in terms of connecting people with jobs, the effectiveness gap between the average and the best performing NAES offices stood at 41% in 2016. Improvements designed to close this gap could increase job placements by 120% (Table 8.5 of Chapter 8) (World Bank, 2018[8]).

Recent restructuring of the NAES, with increased emphasis on skills and collaboration modalities with civil society organisations (CSOs) to reach out to vulnerable groups, is encouraging for fostering social cohesion through an integrated approach. By facilitating access to information and offering vocational training courses in the workplace, CSOs specialised in providing services to specific groups of women play an important role in improving their role in employment. CSOs, such as Different and Equal or the Centre for Human Rights in Democracy, promote and support integration into the labour market of victims of human trafficking and domestic violence (OECD, 2021[9]). At present, however,

co-ordination between social welfare agencies and local NAES offices is still considered weak (OECD, 2021[9]).

9.1.2. Create equal opportunities for vulnerable groups to participate in the labour market

In its efforts to create a socially cohesive society for all, Albania needs to create equal conditions for labour market participation for all, especially Roma and Egyptians. Although population estimates vary significantly, as many as 3.6% of the population of Albania could be Roma (European Commission, 2014[10]).[1] Roma and Egyptians trail behind the rest of the population in many ways. They have low participation in the labour market and their labour market outcomes are significantly worse than those of other population groups: in 2017, only 18% of Roma participated in employment against 26% of non-Roma neighbours (Robayo-Abril and Millan, 2019[11]). Roma and Egyptians have very low health coverage and poor access to education, public services and infrastructure (European Commisision, 2019[12]).

Ensuring better opportunities to obtain high quality education is a key lever for creating employment opportunities for Roma and Egyptians. Some older estimates show that about half of Roma children aged 6-16 have never been enrolled in school (ACCE, 2013[13]) . At about 50%, Roma and Egyptian students have among the highest dropout rates in the country (Psacharopoulos, 2017[14]). Roughly 1% of Roma and 5% of Egyptians aged 7-20 have completed secondary education (Maghnouj et al., 2020[15]). Roma also lag in terms of education outcomes: with a literacy rate of about 65%, the Roma population are about 30 percentage points behind non-Roma (Psacharopoulos, 2017[14]). Although Roma are a considerably young population, a significant share of young persons (15-24) do not participate in employment, education and training: 76% in comparison to 37% of non-Roma neighbours (Robayo-Abril and Millan, 2019[11]).

Albania is making important efforts to improve educational outcomes for the Roma and Egyptian population. Recent policy responses include measures such as a textbook reimbursement programme and efforts to promote Roma and Egyptian identities as an integral part of Albania's cultural heritage (Psacharopoulos, 2017[14]). The recent National Action Plan for the Integration of Roma and Egyptians 2015-2020 aims to further promote integration of these marginalised groups. Important progress has been made, especially in improving enrolment of Roma and Egyptian children in pre-school and compulsory education: against a 2015 baseline of 4 437 Roma and Egyptian children enrolled in pre-school and compulsory education, in just three years (i.e. by 2018), the number increased to 13 310 (CoE, 2020[16]).

Addressing discrimination and institutional barriers against Roma and Egyptians also matters to increase access to employment and public services. Roma and Egyptians are often victims of hidden discrimination, which affects their access to various public services. Based on 2015 estimates, 46% of Roma declared having been discriminated against in the preceding five years when looking for a job and 24% at the work place (Simon, Galanxhi and Dhono, 2015[17]). Lack of necessary documentation among Roma and Egyptians also affects access to basic services. Because they are neither regularly employed nor registered as unemployed, many members of these communities do not have health insurance cards (CoE, 2020[16]).

9.1.3. Further strengthen women's role in society by supporting their integration into the labour market

Further improving conditions across all sectors for labour market participation by women can contribute to boosting economic growth and greater social cohesion in Albania. Women's employment outcomes do not lag significantly behind international benchmarks (Figure 8.4 of Chapter 8); however, women are more likely than men to work in low-income jobs. The overall gender pay gap (10.1% in 2019) is below the EU average (12.9%) but varies considerably among sectors. In production, in which

about 63.8% of women work, the gender pay gap is 24.6% – more than double the average (UN Women, 2020[18]).

Overall, Albania has a solid normative framework in place to promote, enforce and monitor equality and non-discrimination based on sex, and has invested in improving conditions to improve labour market participation of women, including through access to childcare. Albania has put in place important legislative frameworks on gender equality and women's empowerment; on gender-based violence; on employment and economic empowerment; and on marriage and family. Despite progress, effort should made to address remaining gaps in various legislative frameworks. The law on Gender Equality (2008) is considered outdated, especially in light of the evolving context of women (UN Women, 2020[18]). Likewise, there is a rather narrow, force-based definition of sexual violence whereby the prosecution of sexual offences requires proof of physical resistance in all circumstances, with the risk that certain types of rape remain unpunished (CoE, 2017[19]). Albania's performance in early childhood education and care (ECEC), an important element for women's labour market participation, has been improving over recent years. At 75.1% in 2020, gross enrolment in pre-primary education is much higher than the regional average (50.3%), although still lower than the EU (99.9%) average (World Bank, 2021[20]). In 2018, Albania introduced a series of curriculum programmes for different age groups to improve the quality of ECEC as well as an assessment framework to help monitor early childhood learning and development (OECD, 2021[9]).

Improving reproductive healthcare services and availability of contraception can further increase women's labour market participation by reducing the number of unwanted pregnancies. Albanian women, especially those living in rural and remote areas, have limited access to reproductive healthcare services, and are often unaware of the availability of such services. Within the region, Albania has the lowest share of women who use modern contraceptives; among currently married women, use of modern contraceptives has dropped from 11% in 2008-09 to 4% in 2017-18. Access to reproductive health services for adolescents is also inadequate. There is an urgent need to design and tailor appropriate services for this age group, considering the impact of unwanted pregnancies on girls (UN Women, 2020[18]). A preference for male heirs is evident. In combination with rapidly declining fertility rates, sex-selective abortions have skewed the birth sex ratio: the ratio of 111 boys born for every 100 girls is one of the highest in the world (OECD, 2021[1]).

Cultural norms also play a role in women's low labour market participation and should be addressed through awareness raising, both in the education sector and among the general public. Albanian women spend over six times more time on unpaid household chores than men, compared with around two times more in comparable regional economies (such as Serbia) and in the OECD (OECD, 2019[21]). A 2017 revision to the Law "On Social Security" recognised the right of fathers to paternity leave, after the 63-day mandatory period for mothers, Paid parental leave for formal-sector employees can be up to one year, compared to just over 18 weeks for the OECD average (Ministry of Health and Social Protection/INSTAT, 2020[22]; OECD, 2019[23]). However, according to the recently published Gender Equality Index for the Republic of Albania, while half of women report caring for their children or elderly relatives, only one-quarter of men do and close to 90% of women cook daily against only 16% of men (INSTAT, 2020[24]). For one in ten women, the husband decides how their earnings will be used (UN Women, 2020[18]).

Improving property rights and ownership also matters for improving conditions for women to engage in the labour market and potentially to become entrepreneurs. In Albania, there are almost twice as many men landowners than women landowners. Most women landowners have a property share of less than 25% (UN Women, 2020[18]). The 2003 Family Code of Albania recognises property gained during marriage as joint property. The Law on the Registration of Immovable Property (2012) contains provisions on registering immovable property under joint ownership. However, implementation of the legislation has too often been hindered due to discriminatory practices at institutional and community levels and by women's lack of knowledge of their rights. In the past, notaries often failed to include the wife's

name on contracts of ownership, and property was frequently registered under the name of male spouses only. In addition, the Law on Registration of Immovable properties is not applicable to properties registered before 2012 and does not provide for joint ownership in the case of cohabitation; as such, many women were not registered as legal (co-)owners of property (UN Women, 2020[18]). Limited ownership rights means that many women cannot use their property as a guarantee to access funding, which limits their potential labour market participation as entrepreneurs.

9.2. Building effective, inclusive and financially sustainable social protection in Albania

9.2.1. Creating a more inclusive and fairer social security system in Albania

An inclusive and fair social security system calls for a combination of policies that encourage people to participate in formal employment and facilitate a rapid transition from unemployment to work. Due to the lack of adequate and stable employment opportunities, many people – especially the young – do not contribute to unemployment insurance long enough to qualify for unemployment benefits. While decreasing, youth unemployment in 2019 stood at 27% (World Bank/WIIW, 2021[4]). In addition, many long-term unemployed in Albania have lost their unemployment benefit entitlements, with an accompanying risk of exiting the labour market altogether, making future work less likely (Chapter 8). Likewise, among the self-employed (which make up 54.3% of total employment), only 41.6% were covered by social insurance (World Bank, 2021[20]; ILO, 2021[25]). As social security contributions finance more than half of social protection spending, low coverage among the working population jeopardises the financial sustainability of the system (ILO, 2021[25]).

Addressing adequacy of benefits, including levels and duration, could increase participation in the unemployment insurance scheme and encourage the unemployed to register and claim unemployment benefits. Only 2.2% of those registered as unemployed received unemployment benefits in 2017 (Ymeri, 2019[26]), indicating that unemployment benefits do not act as safety nets for many people. The unemployment benefit level in Albania is currently set at a fixed rate of ALL 13 000 or EUR 106, which equals 50% of the gross minimum wage. Unemployment benefits are also granted for a very limited time only (varying between 3 and 12 months), with a minimum contribution period of 12 months (ILO, 2021[27]). Considering that the at-risk-of-poverty threshold was EUR 1 339 in 2019 (Eurostat, 2021[3]), unemployment benefits of EUR 1 272 over a period of 12 months are low. Further, to receive a full year of unemployment benefits, a person would have to contribute for over ten years (SII, 2021[28]).

In view of rapid population ageing over the next decades and the current low social security contribution rates, addressing coverage can improve the financing of old-age pensions, an integral part of any social security system and a tool to foster social cohesion. Although Albania has one of the youngest populations in the region and in comparison to the benchmark economies, projections for the old-age dependency ratio show the share of persons aged 65 and above against those aged 20-64 will almost double from 24.1% in 2020 to 43.8% in 2050 (United Nations, 2020[29]). In addition, considering high long-term unemployment and the share of self-employed who do not contribute, increasing social security coverage is imperative: at present, only 40% of the working-age population is covered by the pension system (Musabelliu, 2021[30]). Failure to increase coverage could lead to high reliance on social pensions in the future, which currently amounts to only 55.6% of the monthly at-risk-of-poverty threshold (Table 8.A.1 of Chapter 8). In 2014, Albania removed caps on maximum benefits, linking contributions and payments to incentivise pension uptake, and introduced social pensions, which led to an overall improvement of the pension system's fiscal sustainability.

9.2.2. Strengthen targeting, equity and adequacy of social assistance for those most in need

Strengthening the economic assistance scheme through increased benefits and continued improvement of targeting could lead to faster poverty reduction. The economic assistance scheme (*Ndihma ekonomike*) is the sole means-tested social assistance scheme in Albania aimed at poverty reduction. Nevertheless, its impact of the economic assistance scheme on poverty reduction remains limited. In 2019, only about 8.7% of population were covered by the scheme (ILO, 2021[31]), which is low considering the poverty rate at 23% in 2019 (INSTAT, 2021[32]). The current economic assistance payment, which varies between EUR 40.70 and EUR 63.70 per month (Table 8.A.1 of Chapter 8), does not provide adequate support to persons in need (ILO, 2021[27]). To enable more effective targeting of the poor, recent reforms, undertaken in the context of the Social Assistance Modernization Project for Albania (supported by the World Bank), introduced changes in the scoring formula. The new formula minimises inclusion errors; however, there are indications of important exclusions due to the weighting criteria. Following the nationwide rollout of the formula in 2018, about 33% of beneficiaries were excluded from the scheme. The current formula gives higher weight to larger households, increasing the risk of excluding female-headed or single-person households, which are smaller in size. Indeed, following the rollout of the new formula, beneficiary families with four or fewer members significantly decreased (ILO, 2021[27]).

Improve assessment of disabilities and consider a financial rebalancing among different disability allowances to ensure assistance reaches those most in need. Disability allowance is another major social assistance programme in Albania. Over the years, the government has spent significant resources on disability allowance, whereas spending on economic assistance has been slightly decreasing since 2005 (Ymeri, 2019[26]). Although the disability benefits scheme does not clearly target the poor population, given the size of expenditures, the level and the type of assistance could potentially also take into consideration socio-economic status (UNICEF, 2019[6]). As part of ongoing efforts to reform economic assistance programme and disability allowance programmes, the Government of Albania is aiming (among other measures) to introduce a new model of disability assessment. The new approach will re-orient the disability assessment from the previous medical model toward the bio-psycho-social model.

Increase the integration of social assistance beneficiaries into the labour market. Linking beneficiaries with the labour market and providing them with employment opportunities can improve people's prospects for an upward social mobility. As stressed by the peer-learning participants from Albania (Table 9.1), currently no "exit strategy" is in place for economic assistance beneficiaries when they reach the five-year legal limit to receive aid. Although social assistance beneficiaries are expected to register with the employment office, actively look for jobs and participate in various activation measures, results obtained so far are not encouraging, implying the need for an exit strategy (Table 9.1).

9.2.3. Deliver social services through a community integrated approach

Establishing community integrated social services is one of the key policy priorities that emerged from the peer-learning workshops. As indicated in Chapter 8, community integrated social services encompasses a range of approaches and methods for achieving greater co-ordination and effectiveness between different services, such as elderly care, healthcare, education and others, with the objective to achieve improved outcomes for services users.[2] During the OECD peer-learning workshop, participants stressed the importance of community integrated services as a key lever to strengthen social protection, deliver social care services and reduce long-term dependency on social welfare through better labour market integration.

To create an integrated approach, it would be important to build adequate capacities within local governments, which should be on the frontline of delivering community integrated social services. Local governments generally have a good knowledge of challenges and needs of vulnerable groups.

Indeed, the decentralisation process over the last decade has given them a great deal of responsibility over social care services (Table 8.7 of Chapter 8). In Albania, however, local government revenues represented only 13.3% of total public revenues in 2019, indicating a very limited scope for implementing social care services. Transfers from central government fill in some of the gap (Figure 8.14 of Chapter 8); however, some of these transfers are earmarked and undermine the capacity of local authorities to spend resources autonomously. Likewise, most of these transfers are block grants and are distributed based on demographic parameters that are likely outdated. The number of residents, for instance, is based on 2011 census data and civil registration offices, which might not factor in migration flows within the country and abroad (AAM/HSS, 2019[33]).

More collaborative efforts are needed to create a community integrated social services in Albania considering the low levels of social care services. While existing social care services have significant potential to increase social cohesion in Albania, overall coverage is rather low. In 2020, the services covered only 0.56% of the population, representing about 16 000 users. Albania provides all types of services defined by law, including pre-social services and specialised services as of 2020.[3] In about 6 of 61 municipalities there are no social services. Where social care services do exist, they are often under-funded and of poor quality (ILO, 2021[27]). The lack of public social care services is often compensated by CSOs – about 46% of social services are provided by non-public centres (Republic of Albania Council of Ministers, 2021[34]).

Improving social housing, which was put forward by the peer-learning participants as one of the key issues hampering social cohesion in Albania, should be a key element of a community integrated approach. In Albania, several priority groups of beneficiaries could benefit from social housing: single-parent households, large families, older adults, people with disabilities, young couples, households who have changed residence, orphans, returning emigrants, migrant workers, asylum-seekers, families of fallen officers, victims of domestic violence, the Roma and Egyptian communities, and recipients of economic assistance. In 2018, only 1 545 households (12.8% of all applicants) benefited from social housing, highlighting the need for more housing. While the government of Albania increased spending on social housing by 30% in 2019, the envisaged budget covers only about 25% of the social housing needs in Albania. In addition, while the Law on Social Housing (Law 22/2018) gives an important role to municipalities, they often lack adequate tools and instruments to collect and analyse data on social housing needs. This is especially important as allocation of funds to each municipality depends on a scoring system that considers the number of beneficiaries; the type of project; the average income per person in the municipality; the cost per family; the number of applications per municipality and other criteria. In 2018, only 30 municipalities (of 61) submitted data on the number of applications for low-cost housing programmes (Jorgoni, 2019[35]). The peer-learning participants also stressed that limited social housing is also hampering the socio-economic integration of residents in care institutions. In Albania, a significant number of families, children and women live in accommodation for the homeless, limiting their process for socio-economic integration.[4]

Social care services could benefit from the recently established Social Fund but would require increased local capacities. The Social Fund was established in Albania in 2018 to address the challenges that municipalities face in funding social care services. The fund was set up as a temporary mechanism to provide seed funding to local governments in the short term. It provides financial support of up to 90% funding in the first year, up to 60% in the second year, and 30% subsequently (ILO, 2021[27]). To obtain funding, municipalities need to draft Social Care Plans, assessing the overall costs for services and the share that can be covered by the municipality budget. To date, 60 municipalities have drafted, approved and budgeted the social care plans with the support of international partners, outlining the needs of vulnerable communities and the services that need to be established in response. Through the Social Fund, three specialised mobile services for children with disabilities and one specialised home assistance have been established.[5]

9.3. Going forward: Socio-economic integration of welfare beneficiaries

Increasing socio-economic integration of social welfare beneficiaries was selected as a key peer-learning priority in Albania, cutting across the policy areas mentioned above. The National Strategy for Social Protection 2020-23 of Albania has already acknowledged the importance of integrating specific policies and programmes to reduce poverty and increase people's capacities to protect themselves from risks and lack of income.

The participants in the peer-learning phase proposed an action plan to support the National Strategy for Social Protection 2020-2023. The action plan outlines five specific actions, accompanied by policy options (*"How to get there"*) and requirements *("What is needed"*) necessary to realise specific objectives. It also includes indicators that may serve as basis for monitoring implementation (Table 9.1). The five actions include:

- Reduce unemployment duration and long-term welfare dependency
- Establish community-integrated social care services
- Integrate administrative procedures for cash assistance programmes, employment and social care services
- Support social inclusion and integration of care institution residents
- Ensure social inclusion of marginalised and vulnerable groups through availability of housing alternatives

Table 9.1. Peer-learning action plan for socio-economic integration of welfare beneficiaries in Albania

Key actions	How to get there?	What is needed?	Monitoring indicators
Reduce unemployment duration and the number of persons on long-term welfare support	• Adjust the cash assistance benefit eligibility threshold • Redirect higher benefit amounts to the poorest households • Ensure adequate support for vulnerable groups through employment promotion programmes • Introduce an exit strategy for economic assistance beneficiaries • Develop tools to monitor skills needs in the labour market and organise vocational trainings in response to labour market needs	• Establish an inter-agency technical working group (State Social Service, Ministry of Health and Social Protection, Ministry of Finance and Economy, National Institute of Statistics, academia, and civil society) • Conduct surveys and studies on skills needs in the labour market and strengthen capacities for monitoring • Prepare an action plan for implementing an exit strategy for economic assistance beneficiaries	• Number of job-seekers employed through ALMP (as % of total unemployed job-seekers) • Number of job-seekers who attend free professional courses at public centres (as % of total unemployed job-seekers) • Number of unemployed job-seekers who receive appropriate vocational training (disaggregated by gender, age, region, minority, victims of domestic violence) • Exit strategy and plan is broadly consulted on with stakeholders through three workshops inviting state institutions at the central and local levels, NGOs, business and other stakeholders • Exit strategy approved by the Council of Ministers
Integrate administrative procedures for cash assistance programme, employment, and social care services	• Set up social enterprises with state financial support • Establish an inter-institutional mechanism through individual action plans for all relevant institutions • Develop guidelines to define roles and responsibilities of actors involved, co-ordination and co-operation activities, and data exchange for the preparation of individual action plans by respective institutions.	• Undertake negotiations with the Ministry of Finance and Economy for the financing mechanism of social enterprises. • Introduce and adopt relevant legal framework changes/amendments • Strengthen institutional capacity at the local level and improve co-ordination	• Number of social enterprises that have established social care services • Number of beneficiaries of passive schemes (economic assistance and unemployment benefits) employed in social enterprises that provide social services for vulnerable groups

Key actions	How to get there?	What is needed?	Monitoring indicators
Establish community-based integrated social care services	• Integrate social care services, and set up institutional arrangements and co-ordination mechanisms with clear roles and responsibilities at local level • Strengthen municipal and national institutional capacities through training and mentoring for the development of social care plans and accessing the Social Fund • Design and pilot new integrated services, including established local linkages between health and social protection services and others • Empower vulnerable communities to actively participate in decision making • Make institutions accountable	• Support local units • Conduct a mapping of social vulnerabilities • Make the National Electronic Register of Social Care Services fully functional at all levels • Undertake modelling of new health and social care services, based on clear standards and protocols • Develop a regulatory framework to enable implementation of integrated care services • Strengthen the capacity of vulnerable groups and their organisations to uphold their rights • Develop and implement a social campaign to build trust between service providers and vulnerable groups	• Number of municipalities with an approved social plan • Number of Municipalities using systematically the National Electronic Register of Social Care Services (NERSCS) • Number of new social services for disadvantaged groups provided through local governments unit using resources from the Social Fund • Number of projects supported by the Social Fund that focus on community-integrated social care services • Number of beneficiaries supported by service providers (disaggregated by gender, age, region, minority, victims of domestic violence)
Support social inclusion and integration of care institution residents	• Co-ordinate the establishment of an integrated legal, administrative and procedural system that ensures implementation in the best interest of children • Develop social and integrated care services for early intervention and prevention of separation of children from the family environment • Develop service models for family empowerment to prevent child separation from family and promote family reunification • Build central and local capacity and raise awareness among institutions and the general public about child welfare and deinstitutionalisation	• Review the legal framework of social services • Establish regulation of the financial framework of the new social care services • Develop institutional mechanism(s) to prevent institutionalisation of children • Conduct individual assessment of each child and family • Undertake modelling, costing and piloting of new alternative social services and approaches with the objective of strengthening family ties • Undertake capacity building of municipalities to implement family empowerment programmes • Develop and implement a communication campaign	• Number of persons in need who have been deinstitutionalised (disaggregated by gender, age, region, minority, need for social housing, family size) • Number of children with disability that have been deinstitutionalised from development centres • Number of children retuned in their biological families • Number of children in foster care • Number of municipalities that have established Child & Family Hubs

Key actions	How to get there?	What is needed?	Monitoring indicators
Ensure social inclusion of marginalised and vulnerable groups through availability of housing alternatives	• Design and pilot of new social housing programmes through improving the need assessment process • Secure public-private partnership (PPP) agreements for improving alternatives of social housing • Develop different subsidy instruments and immediate grants for housing of middle-income groups and groups at disadvantage at local level	• Establish an accessible information system for application in social housing programme • Undertake a capacity building platform (training and on-the-job) for municipalities • Conduct a mapping of social vulnerabilities • Develop a regulatory framework on subsidy instruments for social housing	• Beneficiaries as % of applicants by categories: o people with disabilities o recipients of economic assistance o Roma households o Egyptian households o victims of domestic violence • Beneficiaries by categories as % of total beneficiaries: o people with disabilities o recipients of economic assistance o Roma households o Egyptian households o victims of domestic violence • Number of beneficiaries for social rented housing (as % of applicants) • Number of beneficiaries for housing subsidies (as % of applicants) • Number of beneficiaries for land equipped with infrastructure (as % of applicants) • Number of beneficiaries for low-cost housing (as % of applicants)

Source: OECD peer-learning workshops.

To monitor the policy progress in improving the socio-economic integration of welfare beneficiaries and addressing other policy priorities in Albania, the OECD suggests a set of key indicators. These are set out in Table 9.2 which includes values for Albania and benchmark countries (either the OECD or the EU average, based on data availability).

Table 9.2. Indicators to monitor progress in implementing policy in Albania to foster the socio-economic integration of welfare beneficiaries and other areas relevant for social cohesion

2019, unless otherwise specified

Indicators	Albania	Benchmark value
Long-term unemployment (% of total unemployment)	64.3	25.8
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	25.8	15.5*
Labour force participation rate (gender gap)	15.1	16.5*
In-work at-risk-of-poverty rate (%)	12.7*	9.2*
At-risk-of-poverty rate (%)	21.8*	16.2*
ALMP participants (% of registered unemployed)	7.4**	71.4**
Caseload (number of job-seekers) of public employment service (PES) staff	329	139****
Unemployed persons receiving unemployment benefits (% of all unemployed)	2.2***	45.7*
Persons above retirement age receiving a pension (% of persons above retirement age)	-	95.8*

Note: *2020, **2018 ***2017, ****2016. The benchmark values are based on the current OECD averages, with the following exceptions: *In-work at-risk-of-poverty rate (%)* for which the benchmark value is based on the EU average; *Caseloads (number of job-seekers) of public employment service (PES) staff* and *Persons above retirement age receiving a pension (% of persons above retirement age)* for which the benchmark value is based on Slovenia; and *ALMP participants (% of registered unemployed)* for which the benchmark value is based on Hungary.
Source: World Bank (2021[20]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ILO (2021[36]), *ILOStat* (database), https://ilostat.ilo.org/data/; CPESSEC (2019[37]), Centre of Public Employment Services of Southeast European Countries, https://www.docdroid.net/qvBC3jr/statisticki-bilten-br-9-cpessec-finalno-converted-pdf; RCC (2021[38]) Regional Cooperation Council, https://www.rcc.int/download/docs/Study-on-Youth-Employment-in-the%20Western-Balkans-08072021.pdf/7464a4c82ee558440dfbea2e23028483.pdf; Jahja Lubishtani (2018[39]), The Effectiveness of Active Labour Market Policies in Reducing Unemployment in Transition Economies, https://core.ac.uk/download/pdf/226765796.pdf; World Bank (2018[8]), Functional Reviews of the Public Employment Services in the Western Balkans, https://openknowledge.worldbank.org/bitstream/handle/10986/35656/Functional-Reviews-of-the-Public-Employment-Services-in-the-Western-Balkans-Overview.pdf?sequence=1&isAllowed=y; European Commission (2016[40]), Assessment Report on PES Capacity, https://ec.europa.eu/social/BlobServlet?docId=16967&langId=en; OECD (2021[9]), *Competitiveness in South East Europe 2021: A Policy Outlook*, https://doi.org/10.1787/dcbc2ea9-en; World Bank/WIIW (2021[4]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html.

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Notes

[1] Data are based on the 2011 census and might be underestimated (Simon, Galanxhi and Dhono, 2015[17]). No exact population data are available for Egyptians in this report.

[2] Definition from the Council of Europe (CoE, 2007[41]).

[3] Information provided by the Ministry Health and Social Protection of the Republic of Albania.

[4] At present, 37 families live in emergency shelters, 306 orphans (aged 18-45) live in dormitories, 703 children live in residential institutions and 135 women live in women's shelters or refuge institutions (Jorgoni, 2019[35]).

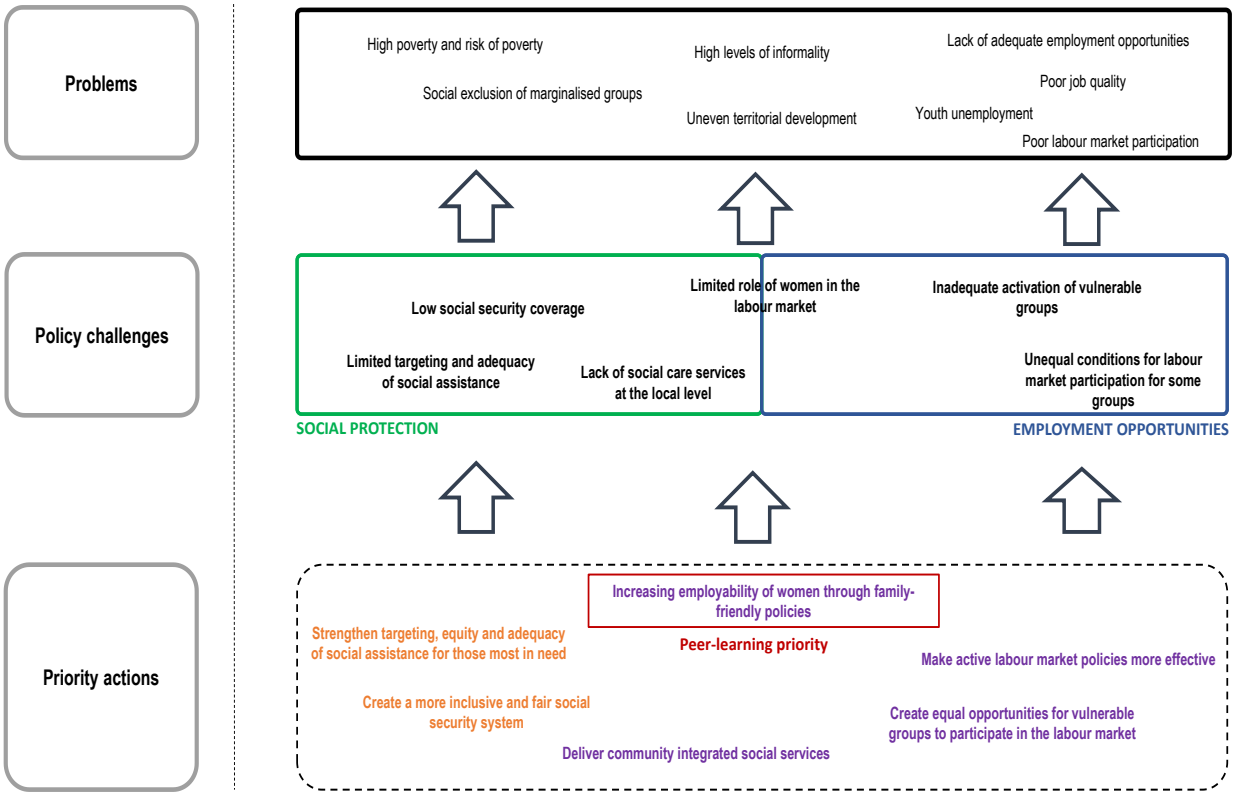
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10 Fostering social cohesion in Bosnia and Herzegovina

Over the past decades, Bosnia and Herzegovina has made remarkable progress in improving the well-being of its citizens. Employment rates have been rising and, thanks to fiscal surpluses, there is considerable fiscal space for financing social protection. To sustain the progress in building a socially cohesive society, this chapter puts forward key policy priorities to foster social cohesion through labour market and social protection. Ensuring women's employability is of particular importance as it can unleash the full potential of the labour force. To this end, key priorities include improving the availability and quality of early childhood education and care, ensuring the flexibility of maternity leave and providing good quality elderly care. Low labour market participation among women and citizens from vulnerable groups, coupled with high long-term unemployment rates, also calls for well-targeted active labour market policies. While Bosnia and Herzegovina has in place a comprehensive set of social protection programmes, gaps in coverage and generosity need to be addressed to provide adequate social security to all. Building on recent policy efforts, further reductions of social security contributions in combination with in-work benefits would help reduce the tax burden for low-wage earners. To provide the most vulnerable with additional pathways to integrate into society, it would be important to improve the delivery of social services.

The Initial Assessment of the Multi-dimensional Review of the Western Balkans highlighted the strategic importance of social cohesion as a key policy priority to fight poverty, exclusion and marginalisation, as well as offering opportunities to people of Bosnia and Herzegovina. A socially cohesive society is one that creates the ability and willingness of its members to undertake collective action for the improvement of societal well-being of all its members. Building on the Initial Assessment, the "From Analysis to Action" phase of the project provides suggestions to foster social cohesion in Bosnia and Herzegovina and in other economies of the Western Balkans. The peer-learning workshops on social cohesion (Box 8.1 of Chapter 8), an integral part of the project's second phase, served three complementary processes: to identify issues hampering social cohesion; to identify key policy challenges; and to put forward policy priorities for Bosnia and Herzegovina and for the region (Figure 10.1).

Figure 10.1. Achieving social cohesion in Bosnia and Herzegovina and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Bosnia and Herzegovina has achieved significant success across various dimensions of social cohesion over the last decades. Employment rates have been steadily rising in Bosnia and Herzegovina – from 31.5% in 2012 to 40% in 2020 (World Bank, 2021[1]). Labour market performance has been improving for women, who traditionally trailed behind men in terms of labour market participation. Given its level of gross domestic product (GDP), Bosnia and Herzegovina performs relatively well in terms of adult literacy, life expectancy and security. Thanks to fiscal surpluses throughout most of the past decade, public debt has declined to about 33% of GDP in 2019, thereby providing considerable fiscal space for stimulus to deal with the negative impacts of the COVID-19 crisis (OECD, 2021[2]).

To continue building a socially cohesive society, Bosnia and Herzegovina must now tackle a set of important problems that remain. Many groups, including women, young and ethnic minorities, are excluded in terms of economic opportunities. Many jobs do not provide enough income to escape poverty,

as evident by very high (24.5%) in-work poverty rates in 2015 (Obradović, Jusić and Oruč, 2019[3]). Access to pensions, social assistance and health insurance favours the employed and war veterans rather than those most in need. For instance, early retirement for war veterans and exclusion of informal workers from the public pension system have led to a situation in which one-third of all pensioners are younger than age 65, while approximately 38% of elderly adults (65 or above) collect no state pension (World Bank, 2020[4]).

Six priority actions have a great potential to foster social cohesion in Bosnia and Herzegovina and in the Western Balkans (Figure 10.1):

- Increasing employability of women through family-friendly policies (peer-learning priority)
- Make active labour market policies (ALMPs) more effective
- Create equal opportunities for vulnerable groups to participate in the labour market
- Create a more inclusive and fair social security system
- Strengthen targeting, equity and adequacy of social assistance for those most in need
- Deliver community integrated approach

Of these, participants in the peer-learning workshop from Bosnia and Herzegovina identified increasing the employability of women through family-friendly policies as the key priority.

This chapter is divided into three sections. Sections 10.1 and 10.2 provide policy implications across the six policy actions through a prism of challenges specific to Bosnia and Herzegovina. Section 10.3 provides indicators against which policy progress in implementing all the policy priorities can be measured. This chapter is complemented by the regional chapter on social cohesion (Chapter 8), which offers more specific policy options for the policy priorities based on international practice that may be applied, with necessary adaptations, also to Bosnia and Herzegovina.

10.1. Supporting people in Bosnia and Herzegovina to find opportunities in the labour market

10.1.1. Further strengthen women's role in society by supporting their integration into the labour market

Women constitute about 40% of the workforce in Bosnia and Herzegovina; ensuring equal conditions for labour market participation between women and men is critical for growth and for social cohesion. Bosnia and Herzegovina has adopted legal frameworks that prohibit discrimination in the workplace,[1] yet women's labour market outcomes lag behind international benchmarks. Female labour force participation stood at 36.7% in 2020, below the Western Balkan average of 40.7%. Women's participation is about 23 percentage points below that of men in Bosnia and Herzegovina (compared to 20 percentage points on average in the Western Balkans) (Figure 8.4 of Chapter 8). Participation is much lower among poor households: only 15% of women from households in the bottom 40% of income distribution engage in formal work, compared with 42% of men (Brookings Institute, 2015[5]). The third Gender Action Plan 2018-2022 (adopted in 2018) proposed a range of very relevant measures to promote female employment, including (among others) collection and analysis of gender-disaggregated data on different variables, training targeted at women, improvements to maternity leave and paid parental leave for both parents (OECD, 2021[6]).

Early childhood education and care[2] (ECEC) was put forward by peer-learning participants from Bosnia and Herzegovina as a key policy area that can improve the employability of women. Lack of access to affordable and quality ECEC is a major issue in Bosnia and Herzegovina. In 2017, only 5.2% of children under 3 years attended ECEC (Agency for Statistics of Bosnia and Herzegovina, 2021[7]), compared to 35.3% in the European Union in 2019 (Eurostat, 2021[8]). While costs for ECEC vary across

Bosnia and Herzegovina, and are generally lower in rural areas, childcare and preschool is generally expensive. In some parts, including in Sarajevo and Tuzla, the cost can be as much as 49% of the minimum wage (Table 10.1). Responsibilities for funding ECEC facilities lie with municipalities, which often do not have adequate financial capacities (an issue that concerns social care services more broadly, see Section 10.2.3). To improve the affordability and quality of ECEC, peer-learning participants from Bosnia and Herzegovina put forward five potential actions with corresponding activities and indicators (Box 10.1).

Table 10.1. Early childhood education is relatively expensive across Bosnia and Herzegovina

	Public pre-school (full-time) fees per month	Pre-school fees as % of average net salary	Pre-school fees as % of net minimum salary
Banja Luka (RS)	EUR 84	19%	36%
Bijeljina (RS)	EUR 95	21%	41%
Mostar (FBiH)	EUR 87 (EUR 102 for crèche)	19% (22%)	52 (61%)
Sarajevo (FBiH)	EUR 82	18%	49%
Tuzla (FBiH)	EUR 82	18%	49%
District of Brčko	EUR 77 (EUR 92 for crèche)	17% (20.5%)	33 (40%)

Note: Minimum salaries are determined by entity governments. In the Republika Srpska, the minimum salaries are determined at the beginning of every year.
Source: Elaborated by the OECD peer-learning based on Obradović (2021[9]).

Bosnia and Herzegovina should consider improving the flexibility of maternity leave to improve the likelihood of women's labour market participation, while at the same time ensuring adequate income security during pregnancy. Women in Bosnia and Herzegovina have the right to paid maternity leave of 12 consecutive months, which can be extended to 18 months in the event of multiple births (CoE, 2020[10]). Interviews with focus groups and employment agency officials in six communities reveal that young women often face poor employment prospects and discrimination when applying for a position (World Bank, 2016[11]). Once pregnant, employed women face an uncertain situation when it comes to their maternity leave payments. Additionally, maternity leave payments vary across different regions and are often inadequate, particularly in the Federation of Bosnia and Herzegovina (FBiH). In the FBiH, cantonal legislation governs conditions, calculation methods, procedures, powers and funding arrangements, and payment of maternity benefits depends on funding dedicated to cantonal budgets. In some cantons, including Una-Sana, Central Bosnia, Sarajevo and Herzegovina-Neretva, statutory maternity benefits of less than 70% of the minimum wage are paid to women (CoE, 2020[10]). Women working in the public sector in the FBiH usually receive full salary compensation during maternity leave because the benefit is stipulated by collective agreements. The Republika Srpska (RS) provides full salary compensation during maternity leave for women in registered employment. The participants from Bosnia and Herzegovina also suggest to adjust entity laws on labour, which regulate maternity leave provisions, to include paternity and parental leave and other flexible leave arrangements for families with children (Box 10.1).

Ensuring good quality elderly care can also improve the employment prospects of women. As in the case of childcare, it is often women who take care of the elderly. With the rapidly ageing population, institutional care will become an important concern in Bosnia and Herzegovina. Migration, together with other factors (such as low fertility rates), is expected to create significant demographic pressures in the future as the working-age population is projected to shrink from 67.6% in 2020 to 57.9% in 2050, and the population above 65 to increase (United Nations, 2020[12]). Considering that poverty levels among isolated elderly (one-person households, aged 64+) is 30.4% in the FBiH and 23.8% in RS (Government of Bosnia and Herzegovina, 2017[13]), many elderly cannot afford institutional care and need to count on their family support, especially that of women. The peer-learning participants stressed two actions to improve women's employabiliy in relation to elderly care. First, increase the number of elderly care facilities and their affordability and, second, provide financial support for elderly care (Box 10.1).

Box 10.1. Increasing employability of women through family-friendly policies

To increase women's employability in Bosnia and Herzegovina, participants of the peer-learning workshops held as part of the MDR of the Western Balkans suggested an action plan to complement current policy efforts in Bosnia and Herzegovina (Table 10.2). Representing the Directorate for Economic Planning, Labour and Employment Agency of Bosnia and Herzegovina, the University of Mostar, the University of Sarajevo and the Federal Institute for Development Programming, participants suggested seven actions across three policy areas, with corresponding indicators to monitor policy progress.

Table 10.2. Action plan to increase women's employability in Bosnia and Herzegovina

Actions	Activities	Indicators
Action 1: Increase the number of ECEC facilities	• Raise awareness about the importance of ECEC for child development and its impact on women's employment • Undertake needs assessment for ECEC facilities by area • Set capacity targets by area for ECEC facilities, based on needs assessments • Provide grant support to local authorities willing to invest in ECEC facilities (assistance should be conditional on increasing the preschool education coverage of all children, while ensuring that vulnerable groups are not excluded) • Improve the quality of preschool education by providing trainings related to child development, child nutrition and other areas	• Number of awareness-raising activities for different stakeholders • Needs assessments reports by areas, with clear capacity targets and funding required • Grants provided to local authorities, especially those most in need • Number of trainings conducted on child development, child nutrition and other areas
Action 2: Adaptive fee structure to support parents in need	• Introduce an adaptive fee structure based on parent income and a point system for public kindergartens	• Comprehensive data collection activities on parent income across various areas • A drafted fee structure concept note, including a point system
Action 3: Increase capacities of local governments to apply for EU and other funding	• Undertake capacity building activities across municipalities, also in collaboration with international partners • Introduce digital technologies in areas where needed	• Number of local governments that have applied for EU projects for pre-school funding • Number of trainings for local governments on how to apply for EU funding
Action 4: Train and professionalize ECEC workers	• Create and implement training courses and certifications for childcare • Create and complement training for unemployed teachers and psychologists to be trained for pre-school	• A developed concept notes for trainings • Number of trainings undertaken
Action 5: Harmonise the law on maternity and paternity leave with the EU leave directive, make it more flexible and increase the possibilities and conditions for parental leave	• Table a proposal for a change of law in legislatives at the entity level • Change the law to include paternity leave	• A drafted law proposal • A law amendment adopted
Action 6: Create a system of long-term care	• Increase the number of affordable elderly care facilities • At local level, provide home care services for elderly and for persons in need of long-term care that would enable their life in communities.	• Number of PPPs for elderly care • Number of local authorise providing home care services

To support implementation of the proposed action plan, participants stressed the importance of having in place certain conditions. First, various legal adjustments will need to be made across all policy areas mentioned above. Second, it will be important to involve municipalities (and cantons in the case of the

FBiH) end ensure their full support. Although the provision of these services is the competence of municipalities, higher levels of government may also provide financial support.

In addition to the above, peer-learning participants stressed the need for several requirements to implement the action plan. First, more funding will be required. An example of an alternative funding mechanism comes from elderly care in Sarajevo, where centres were created and are used for social activities for elderly during the day and rented to businesses during evening hours. Second, it is important to build skills in municipal and cantonal administrations to help them seek funding, including from the European Union and other donors, especially by training staff to write project proposals for funding. As stressed by the peer-learning participants, because of limited capacity, many municipalities are currently not looking proactively for funding. Third, it would be important to strengthen communication efforts across municipalities and cantons to demonstrate how such policy measures can improve labour market prospects for many, especially women. Finally, creating a co-ordination group on the issue of women's employability within local structures would be beneficial and should involve municipalities and other stakeholders. Such structures already exist, but mainly in areas of infrastructure and agriculture.

Source: OECD peer-learning workshops.

Beyond peer-learning priorities, strengthening women's role in asset ownership could boost their entrepreneurship. In 2019, only 25% of businesses in Bosnia and Herzegovina included female participation in ownership, substantially lower than the regional average of 32% (World Bank/EBRD/EIB, 2019[14]). Often, small- and medium-sized enterprises (SMEs) in particular do not meet the relatively stringent bank-lending requirements, including high-value collateral (over 200% of the loan value) with a strong preference for land and real estate (World Bank et al., 2021[15]). As women are less likely to own such assets, this represents an important constraint for women-owned businesses. The financing gap for women-owned businesses (over 60%) is significantly larger than for male-owned businesses (34%) (World Bank, 2018[16]). From a legal perspective, men and women are equally entitled to own assets; local customs and traditions, however, often favour male ownership. As a result, men represent over 70% of landowners in Bosnia and Herzegovina (World Bank et al., 2015[17]).

Cultural norms also play a role in women's low labour market participation and should be addressed through awareness raising, both in the education sector and among the general public. Discriminatory social norms can explain women's lack of access to economic opportunities. These include women's unpaid work responsibilities, discrimination in the workplace and traditional gender roles. Women were engaged in about 70% of all unpaid care work for family members in 2016 (Ortlieb et al., 2019[18]) while virtually no men report staying home to take care of their families in Bosnia and Herzegovina (Agency for Statistics of Bosnia and Herzegovina, 2017[19]).

10.1.2. Make active labour market policies more effective

High long-term unemployment and lack of employment opportunities for people who have no prior job experience both call for well-targeted ALMPs. In 2019, 76% of the unemployed in Bosnia and Herzegovina were long-term unemployed, among the highest rates in the region (Figure 8.2 of Chapter 8). At 93.4%, long-term unemployment among the unemployed aged 55-64 years is particularly high (Table 8.2 of Chapter 8). Among young persons (15-24 years), about one in five was not participating in employment, education or training (Figure 8.3 of Chapter 8 – Panel A). Poor labour market integration across these groups can potentially lead to loss of skills and long-term reliance on welfare assistance, jeopardising productivity growth and leading to emigration. About 27% of young persons in Bosnia and Herzegovina report a strong or very strong desire to migrate, which is high in comparison to benchmark economies such as Bulgaria, Croatia and Romania (Figure 8.3 of Chapter 8 – Panel B).

To increase the impact of ALMPs in Bosnia and Herzegovina, it would be imperative to increase coverage among the most vulnerable groups and improve participation in training and start-up programmes. The low share of registered unemployed participating in ALMPs (7.6% in 2018) indicates significant scope to increase coverage. Most participants (90.4%) were placed in sheltered and supported employment and rehabilitation whereas only 5.6% participated in training and 3.0% in start-up incentives (Table 8.3 of Chapter 8). Increasing participation in training, especially to provide job-relevant experience to young and boost their employability, would be especially important (Obradović, Jusić and Oruč, 2019[17]). Missing work experience in the labour force is a major or severe obstacle for business expansion according to 47.8 % firms in Bosnia and Herzegovina, the highest share in the region (World Bank/WIIW, 2020[20]).

Effective implementation of ALMPs requires adequate capacities in the public employment agencies in Bosnia and Herzegovina. The ratio of job seekers per counsellor is about 620:1 in FBiH and 970:1 in RS (Table 8.4 of Chapter 8). The client-staff ratios are very high in comparison to international benchmarks such as Slovenia (137:1), which hampers agency efforts to connect people with jobs. Recent estimates in FBiH show the effectiveness gap (measured in terms of connecting people with jobs) between an average employment agency and the best-performing one stood at 33% in 2016. Improvements to close the effectiveness gap could increase job placements by 25% (Table 8.5 of Chapter 8).

ALMPs should ensure faster labour market integration by introducing – and better monitoring – job-search requirements. In RS, beneficiaries of social protection schemes (including social assistance and unemployment benefits) have a job-search requirement. In the FBiH, only those eligible for unemployment benefits are obliged to report monthly to an employment agency, participate in information sessions and engage in job-search training (OECD, 2021[6]). In absence of more comprehensive job search requirements, few incentives exist to encourage social assistance recipients to actively look for a job. Beneficiaries of permanent social assistance have low incentives find work, as relatively strict rules link additional earnings of a household with their eligibility to social assistance, and may lead to a loss of social assistance. At the same time, relatively generous status-based benefits for veterans provide them with few incentives to find paid work (Numanović, 2016[21]). The new Employment Strategy 2021-2027 of FBiH is aiming at higher inclusion of the people at risk of poverty, exclusion and marginalization, especially through diversifying ALMPs and strengthening implementation capacities, including of the PES.

Beyond ALMPs, Bosnia and Herzegovina should work towards matching unemployment benefits with obligations in the unemployment benefits system. In Bosnia and Herzegovina, registration with employment agencies is linked to a range of social benefits, including basic health insurance coverage. This generates high incentives to register as unemployed, including for workers in the informal economy and those not actively looking for work (ILO/Council of Europe, 2007[22]; ETF, 2006[23]). Based on the labour force survey from 2019, many (43.8%) of the registered unemployed were inactive and a considerable share (23.7%) were informally employed while receiving free health insurance and other social benefits (European Commission, 2020[24]). With entry of the new Law on Health Insurance, RS started to delink public employment services from administrating health insurance for job seekers in 2020. However, implementation is still at the early phase to evaluate the impact. In FBiH, no legislative frameworks are yet in place to this end (European Commission, 2020[24]).

10.1.3. Create equal opportunities for vulnerable groups to participate in the labour market

Bosnia and Herzegovina needs to create equal conditions for participation of its sizeable Roma minority in the labour market. Although the share of Roma population (1.7% of total population) is among the lowest in the Western Balkans, their numbers are still sizable: some estimates indicate between 46 000 and 76 000 Roma living in Bosnia and Herzegovina (European Commission, 2014[25]). Overall, Roma have worse well-being outcomes than the general population, especially in terms of employment. Only 11% of Roma participate in employment in comparison to 29% of non-Roma Bosnians living in the same areas

(Figure 8.7 of Chapter 8 – Panel B). Roma also have worse outcomes in access to healthcare, housing and education (OECD, 2021[2]).

Ensuring better opportunities to obtain high quality education is one of the key levers for creating employment opportunities for Roma. The primary school enrolment rate of Roma children is roughly two-thirds that of the rest of the population; their secondary school attendance rate is less than 50%. Roma students have higher dropout rates compared to their non-Roma peers, especially among girls. Roma parents report the stigma and discrimination against their children as reasons to keep them out of school. One in three Roma children have experienced some kind of discrimination in their schools. Children need identity papers to access school, which is an additional issue as many Roma children do not have birth certificates (UNICEF, 2020[26]). Among young Roma (aged 15-24), as many as 82% do not participate in employment, education or training (in comparison to 43% of their neighbours) (Figure 8.7 of Chapter 8 – Panel A). This implies a great human capital loss and limited social cohesion in some areas.

Addressing discrimination and institutional barriers against Roma also matters to access education and employment. A European Court of Human Rights report found that discrimination against Roma is evident in the provision of services such as housing, healthcare, education and employment (UNICEF, 2020[27]). Most Roma live in informal settlements in extremely impoverished conditions, often without proper heating or even access to safe water. Furthermore, many Roma cannot access services because they do not have the necessary papers due to the fact that many live in informal settlements and cannot register with the municipalities there (Minority Rights Group, 2021[28]).

Bosnia and Herzegovina is making efforts to improve employment outcomes for the Roma population. The most recent Action Plan for Addressing Roma Issues in Employment, Housing and Healthcare (2020), the Framework Action Plan on Educational Needs of Roma Boys and Girls in Bosnia and Herzegovina (2018-2022), and the accompanying allocation of around EUR 1.2 million per year to Roma-related activities by the Ministry of Human Rights and Refugees at the state level are important steps forward (UNICEF, 2020[26]). In RS, the Social Inclusion Strategy (2021-2027) recognises education as a key factor to improve labour market outcomes of ethnic minorities and other vulnerable groups (Republika Srpska, 2020[29]). Likewise, in FBiH, the Social Inclusion Strategy (2021-2027) lays out elimination of discrimination against minority groups, and particularly Roma, as a key measure (Government of the Federation of Bosnia and Herzegovina, 2020[30]).

10.2. Building effective, inclusive and financially sustainable social protection in Bosnia and Herzegovina

10.2.1. Create a more inclusive and fairer social security system in Bosnia and Herzegovina

An inclusive and fair social security system calls for a combination of policies that encourage people to participate in formal employment and bring the unemployed back to work. In Bosnia and Herzegovina, unemployment benefits do not act as a safety net for previously employed people: in 2020, only 5.3% of those registered as unemployed received unemployment benefits (Figure 8.10 of Chapter 8 – Panel A). Structural labour market challenges, such as long-term unemployment, youth unemployment, low labour market participation of women and other vulnerable groups, mean that many people either do not contribute to unemployment insurance long enough to qualify for unemployment benefits or have exhausted their unemployment benefits. High levels of informality (about 30.9% of total employment in 2019) further limit social security coverage (ILO, 2020[31]). Among self-employed workers (24.9% of total employment), about 53.1% were estimated to be working informally in 2020 (ILO, 2021[32]). As social security contributions finance more than 75% of social protection spending in 2016 (Obradović and Jusić, 2019[33]), low coverage is jeopardising the financial sustainability of the system.

Building on the recent Reform Agenda for Bosnia and Herzegovina (2015-2018), it would be important to consider further reduction of high social security contributions in combination with other policy instruments (such as in-work benefits) to reduce the tax burden on labour for many, especially low-wage earners. Because of high social security contributions in total labour taxes,[3] Bosnia and Herzegovina has one of the highest labour tax wedges[4] in the region (for a single worker earning the average wage) (Figure 8.11 of Chapter 8 – Panel A). High tax wedges tends to discourage employers from formalizing employment relationships with workers (Packard, Koettl and Montenegro, 2012[34]) . As progressivity of personal income tax[5] is low, those earning low wages face a high relative tax wage in comparison to workers earning average wages. As part of the Reform Agenda for Bosnia and Herzegovina (2015-2018), the entity governments committed to reducing the burden on labour by lowering social security contributions and implementing changes to personal income tax (Obradović and Jusić, 2019[33]). The FBiH has been planning to adopt a Law on Contributions, which envisages reducing social security contribution rates from 41.5% to 32.5%, and a Law on Income Tax that plans improvement in progressivity of income taxation.[6] The Government of FBiH expects these reforms would have a neutral financial effect on social insurance funds, as the tax base would be broadened to include all fringe benefits (e.g. meal and transport cost allowances). Despite the proposals, concerns have been raised that the changes might lead to a reduction in the social security fund, while not reducing the tax burden on labour.[7] Likewise, as the tax base would be broadened to include all fringe benefits, trade unions fear that wages will be further reduced. The unions argue that application of these laws would increase the tax burden on low-income workers, especially in the private sector where a substantial share of workers' wages are paid in fringe benefits (Obradović, 2019[35]). It is not yet clear how the resulting drop in social insurance funds will be offset in the short term (ESPN, 2019[36]). Experience from RS, which made significant reductions in social security contributions in 2009, show that this approach led to a reduction of government revenues[8] (Obradović and Jusić, 2019[33]). At the end of 2019, the RS reduced social security contributions from 33% to 32.8% (Republika Srpska, 2021[37]).

Considering the low labour market participation and rapid ageing of the population in Bosnia and Herzegovina, addressing social security coverage can improve the financing of old-age pensions, an integral part of any social security system. Although rising, Bosnia and Herzegovina has one of the lowest employment rates in the region (Figure 8.1 of Chapter 8). Together with population ageing, this trend is reducing the social security coverage rate of the active population, with potential negative impact on future pensions. The pension funds of both entities function on the "pay-as-you-go" principle and are largely financed by social security contributions (87% in FBiH and 99% in RS in 2018) (Obradović and Jusić, 2019[33]). Given the low level of formal labour market participation, each contributor currently supports more than 1.26 pensioners in Bosnia and Herzegovina, one of the highest burdens per contributor in Europe (Figure 8.12 of Chapter 8). Despite a steady rise in social fund revenues in recent years, both entities were forced to take out loans to pay pensions (OECD, 2021[2]). Given expected negative labour market trends, especially in the context of the COVID-19 pandemic, the entities will need to explore complementary and more sustainable financing models. To improve the financial sustainability of the pensions system in Bosnia and Herzegovina, RS started to operate its first private pension fund in 2017 while FBiH adopted a law on voluntary pension funds in 2016 (Obradović and Jusić, 2019[33]).

In addition to boosting coverage, Bosnia and Herzegovina should improve equity in its pensions, including by phasing out benefit increases for special interest groups. Although pension benefits are not particularly generous (net replacement rates were just above 40% of net wages, compared to almost 60% in OECD countries), high spending is largely the result of early retirement and war veterans receiving disability or special pensions (OECD, 2017[38]; Bošnjak, 2016[39]). In 2017 in FBiH, the government bill for early retirement of army veterans from the 1992-95 conflict was BAM 122 million (EUR 65.5 million) (Obradović and Jusić, 2019[33]). Special pensions, in combination with early retirement, have led to a situation in which one-third of all pensioners in Bosnia and Herzegovina are younger than 65. At the same time, approximately 38% of elderly adults (over 65), likely do no collect state pension at all (World Bank, 2020[4]).

10.2.2. Strengthen targeting, equity and adequacy of social assistance for those most in need

Social assistance schemes in Bosnia and Herzegovina should ensure better equity by better prioritising persons in need. The three main programmes of social assistance in Bosnia and Herzegovina are permanent social assistance, disability allowance, and war veterans pensions (Table 8.A.2 of Chapter 8). Of 4% of GDP spent for social assistance overall, around three-quarters is directed to veterans and their dependents (51 727 beneficiaries in 2018) (SDC/UNDP, 2021[40]; OECD, 2021[6]). This limits poverty-reduction efforts within social assistance spending in Bosnia and Herzegovina (Numanović, 2016[21]; Obradović, 2018[41]).[9] Spending on permanent financial assistance, the only means-tested scheme, remains limited (around 1% of GDP in 2020 (SDC/UNDP, 2021[40]) and is low given that 27% of the population is estimated to be at risk of poverty in 2015 (Eurostat, 2021[8]).

Social assistance schemes in Bosnia and Herzegovina should improve targeting. Considering that only 18% of permanent financial assistance (the main means-tested scheme) was received by the poorest income quintile, it seems clear this scheme insufficiently targets the poorest (Numanović, 2016[21]). Poor targeting of the main means-tested assistance therefore explains the low reduction of the at-risk-of-poverty rate through social transfers[10] (9.16% against the EU average of 33.2% in 2018) (European Commission, 2020[24]). In RS, for example, the elderly must meet very restrictive conditions to receive cash benefits. According to the Law on Social Protection, persons need to fulfil various cumulative conditions for continuous financial assistance, including being incapable of work, having no property (movable and immovable) and having no immediate family members (Republika Srpska, 2020[29]).

To decrease poverty, Bosnia and Herzegovina should also reassess the adequacy of its permanent financial assistance. The permanent financial assistance payment varies depending on household size but is very low in both entities. For a four-person household, the permanent financial assistance benefit stands at 56.9% of the poverty threshold in RS and only 25.8% in the FBiH.[11] Having a veteran-based status also disproportionally affects disability allowances. A person with disability and war veteran status at the same time receives benefits that are five times larger than a person with the same, but non-war related, level of disability (Numanović, 2016[21]).

The social assistance system in Bosnia and Herzegovina would benefit from better co-ordination. Regulatory inefficiencies and significant inequalities in providing social assistance can be attributed to a highly decentralised system comprised of more than 20 central and local ministries, as well as separate administrative systems among entities and cantons (World Bank, 2020[4]). Cantons in FBiH, for example, apply different laws when determining eligibility for financial assistance, including diverging treatment of household income components and differing percentage increases in assistance for additional or incapacitated household members (Delalić et al., 2020[42]). Harmonising legislation and standardising qualification criteria at the entity level at least would lead to equal treatment of citizens, regardless of their place of residence. The new bill on Support to Families with Children, in parliamentary procedure in the FBiH at the time of writing, aims to regulate the basic financial support that currently varies and depends on cantonal arrangements.

10.2.3. Deliver community integrated social services

Establishing community integrated social services is one of the key policy priorities that emerged from the peer-learning workshops. As indicated in Chapter 8, community integrated social services encompass a range of approaches and methods for achieving greater co-ordination and effectiveness among different services, such as elderly care, health care, education and others, with the objective to achieve improved outcomes for services users.[12] During the OECD peer-learning workshop, participants stressed the importance of community-integrated social services as a key lever to strengthen social protection, deliver social care services and reduce long-term dependency on social welfare through better labour market integration.

Bosnia and Herzegovina's unique governance structure could be conducive for establishing community-integrated social services at the local level, but this requires adequate financial and human resources for local authorities. In Bosnia and Herzegovina, most of the responsibility for social services lies with local government units, including cities and municipalities where service delivery is through centres for social work (Lepir, 2015[43]). Despite the high level of responsibility, local government units often lack capacities to deliver quality social services. Local government revenues amounted to 10.4% of total public revenues in 2019, the lowest level in the region (Figure 8.14 of Chapter 8). Responsibility for financing social services lies fully within local authorities.[13] Most social protection funding in Bosnia and Herzegovina is geared towards financial and material support, leaving very little space to develop social services (Lepir, 2015[43]).

Centres for social work, which should be an integral component in delivering integrated social services, need to increase their capacities to deliver broader services. Centres for social work in Bosnia and Herzegovina generally employ a small number of professional workers with inadequate experience and a disproportionate number of technical staff; the centres are burdened by the increased demands of beneficiaries (Lepir, 2015[43]). Also, most centres for social work have very limited funding. As a consequence, limited capacities affect also the co-operation of social services with other partners, such as NGOs and the private sector. There are localities where social services are provided by NGOs on project basis, financed from foreign donors. Most of these projects are not supported by local government, which negatively impact their sustainability. Also, private provision of social services have emerged, especially in elderly care and ECEC as there is a high demand for these services. However, the owners only need to fulfil minimum standards related to facilities and personnel, representing a big shortcoming in maintaining the quality of the service that is provided (Lepir, 2015[43]).

10.3. Indicators to monitor the overall policy progress in Bosnia and Herzegovina

To monitor progress in improving socio-economic integration of welfare beneficiaries and in addressing other policy priorities in Bosnia and Herzegovina, the OECD suggests a set of key indicators. These are set out in Table 10.3 which includes values for Bosnia and Herzegovina and benchmark countries (either the OECD, the EU average, or benchmark economies, based on data availability).

Table 10.3. Indicators to monitor progress in implementing policy to foster socio-economic integration welfare beneficiaries and other areas relevant for social cohesion in Bosnia and Herzegovina

2019, unless otherwise specified

Indicators	Bosnia and Herzegovina	Benchmark value
Long-term unemployment (% of total unemployment)	76	25.8
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	21.8*	15.5*
Labour force participation rate (gender gap)	22.5*	16.5*
In-work at-risk-of-poverty rate (%)	24.5*****	9.2
At-risk-of-poverty rate (%)	27	16.2*
ALMP participants (% of registered unemployed)	7.6**	71.4**
Caseload (number of jobseekers per counsellor) of public employment service (PES) staff	794****	139****
Unemployed persons receiving unemployment benefits (% of all unemployed)	5.3*	45.7*
Persons above retirement age receiving a pension (% of persons above retirement age)	69.5*	95.8*

Note: *2020, **2018 ***2017, ****2016, *****2015. The benchmark values are based on the current OECD averages, with the following exceptions: *In-work at-risk-of-poverty rate (%)* for which the benchmark value is based on the EU average; *Caseloads (number of jobseekers) of public employment service (PES) staff* and *Persons above retirement age receiving a pension (% of persons above retirement age)* for which the benchmark value is based on Slovenia; *ALMP participants (% of registered unemployed)* for which the benchmark value is based on Hungary; and *Unemployed persons receiving unemployment benefits* for which the benchmark value is based on the Czech Republic.

Source: World Bank (2021[1]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ILO (2021[32]), *ILOStat* (database), https://ilostat.ilo.org/data/; CPESSEC (2019[44]), Centre of Public Employment Services of Southeast European Countries, https://www.docdroid.net/qvBC3jr/statisticki-bilten-br-9-cpessec-finalno-converted-pdf; RCC (2021[45]) Regional Cooperation Council, https://www.rcc.int/download/docs/Study-on-Youth-Employment-in-the%20Western-Balkans-08072021.pdf/7464a4c82ee558440dfbea2e23028483.pdf; Jahja Lubishtani (2018[46]), The Effectiveness of Active Labour Market Policies in Reducing Unemployment in Transition Economies, https://core.ac.uk/download/pdf/226765796.pdf; World Bank (2018[47]), Functional Reviews of the Public Employment Services in the Western Balkans, https://openknowledge.worldbank.org/bitstream/handle/10986/35656/Functional-Reviews-of-the-Public-Employment-Services-in-the-Western-Balkans-Overview.pdf?sequence=1&isAllowed=y; European Commission (2016[48]), Assessment Report on PES Capacity, https://ec.europa.eu/social/BlobServlet?docId=16967&langId=en; OECD (2021[6]), Competitiveness in South East Europe 2021, https://www.oecd-ilibrary.org/development/competitiveness-in-south-east-europe-2021_dcbc2ea9-en?_ga=2.6172791.531475288.1633337760-365260501.1629701661, Eurostat (2021[8]), Eurostat (database), https://ec.europa.eu/eurostat/fr/web/main/data/database. Obradović, Jusić and Oruč (2019[3]), *In-work Poverty in Bosnia and Herzegovina*, European Social Policy Network, Brussels, https://ec.europa.eu/social/BlobServlet?docId=21121&langId=en; OECD (2021[6]), Competitiveness in South East Europe 2021, https://www.oecd-ilibrary.org/development/competitiveness-in-south-east-europe-2021_dcbc2ea9-en?_ga=2.6172791.531475288.1633337760-365260501.1629701661; World Bank/WIIW (2021[49]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html.

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Notes

[1] Bosnia and Herzegovina has ratified ILO Conventions 100 (Equal Remuneration), 111 (Discrimination in Respect of Employment and Occupation) and 156 (Workers with Family Responsibilities). The Law on Gender Equality mandates non-discrimination on the basis of sex in employment (art. 2, 12, 13, 14 & 15), specifically covering: job advertisements, selection criteria, hiring, terms and conditions of recruitment, promotions, trainings, assignments and termination of contracts. This Law also mandates equal remuneration for work of equal value (art. 13) (OECD, 2019[52]).

[2] Early childhood education includes early childhood educational development programmes that target children below 3 years of age; pre-primary education programmes target children aged 3 years until the age to start their primary education (UNESCO, 2021[51]).

[3] At 41.5% in FBiH and 33% in RS, the contribution rates significantly exceed the average of 29.7% in 6 Western Balkan economies (World Bank, 2020[4]).

[4] The tax wedge is defined as the ratio between the amount of taxes paid by an average single worker (a single person at 100% of average earnings) without children and the corresponding total labour cost for the employer. This indicator is measured in percentage of labour cost (World Bank/WIIW, 2019[53]).

[5] Progressivity of labour taxation is calculated as the percentage point increase of the tax wedge between workers earning 67% of the average wage and workers earning 167% of the average wage (World Bank/WIIW, 2019[53]).

[6] Persons earning below BAM 800 (EUR 410) per month are not to be taxed (Obradović, 2019[35]).

[7] The Employers' Association of FBiH proposed reducing contribution rates to 30.5% and suggested that, up to a certain level, fringe benefits should not be taxed. The government raised concerns that such a reduction would result in a loss of revenue for pension and unemployment insurance funds. Additionally, the employers called on the government to not support the laws in the absence of a provision stating that any growth in revenues would be matched by a further decrease in contribution rates (Obradović, 2019[35]).

[8] The overall rate was reduced from 42% to 30.6% in RS. One year later, to preserve fiscal and social stability, the government increased the overall contribution rates from 30.6% to 33% (Obradović and Jusić, 2019[33]).

[9] More than 20% of social assistance for veterans is given to the 40% of beneficiaries with the highest income (World Bank, 2020[4]).

[10] According to Eurostat, "the reduction in percentage of the at-risk-of poverty rate due to social transfers is calculated by comparing the at-risk-of poverty rates before social transfers with those after transfers" (Eurostat, 2018[50]).

[11] Adequacy calculations have as basis the at-risk-of-poverty threshold (60% of median equivalised income) for a single person household, if not otherwise defined. The four-member household basis is the at-risk-of-poverty threshold for two adults with two children younger than 14 years, as defined by Eurostat. For the Federation of Bosnia and Herzegovina only the cross-cantonal average value of permanent social assistance is available, thus adequacy calculation overestimates the value for a single person household and likely underestimates the value for households with four members.

[12] Definition from the Council of Europe.

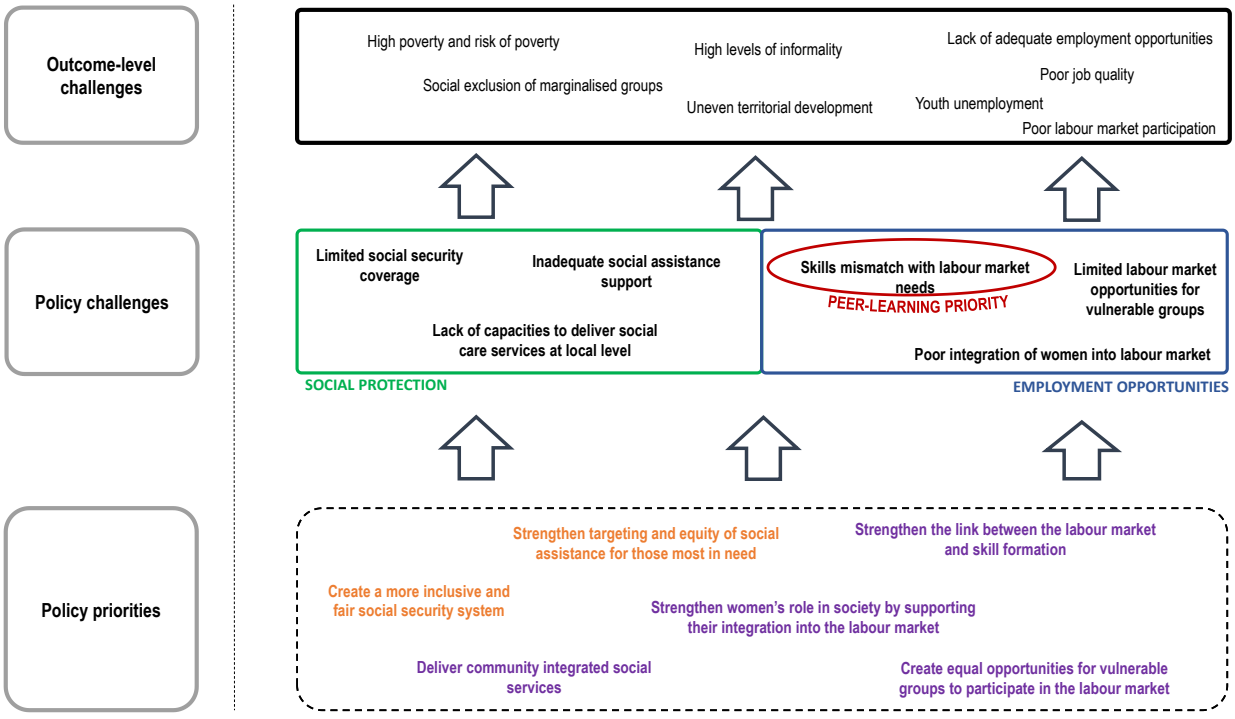
[13] The state-level authorities do not have jurisdiction in the financing of social services, except for funding social services for asylum seekers, and victims of trafficking (Lepir, 2015[43]).

11 Fostering social cohesion in Kosovo

Since its independence, Kosovo has made remarkable progress in increasing the well-being of its citizens. Despite a narrow productive base, Kosovo had the highest economic growth in the region over the period 2015-19. Kosovo has also made important steps towards institution building. As a result, living standards have improved. To continue building a socially cohesive society through labour market and social protection, this chapter puts forward key policy priorities for Kosovo. Kosovo should prioritise strengthening links between the skills formation system and labour market needs. To further increase labour market participation, especially among women and vulnerable groups, it is important to also address the existing weakness in maternity leave and provide options for paternity leave, as well as taking action against discrimination. Kosovo has a unique social protection system, with universal social pensions and last-resort income support compensating for missing social insurance mechanisms. While this has benefits in terms of coverage, the absence of financed employment-linked entitlements tends to limit worker protection and to generate adverse labour market incentives. Providing unemployment insurance, improving the functioning of the pensions system and ensuring that social assistance reaches those most in need, would improve access to adequate safety nets. In addition, Kosovo should also improve the delivery of social services.

Key elements of social cohesion ranked very high in Kosovo in the Initial Assessment of this Multi-dimensional Review of the Western Balkans – health insurance and social protection, self-employment and careers, good governance and policy making, social development, and financial sustainability. A socially cohesive society is a society that creates the ability and willingness of its members to undertake collective action for the improvement of societal well-being of all its members. Building on the Initial Assessment (OECD, 2021[1]), the "From Analysis to Action" phase of the project provides suggestions to foster social cohesion in Kosovo and in other economies of the Western Balkans. The peer-learning workshops on social cohesion (Box 8.1 of Chapter 8), an integral part of the project's second phase, served three complementary processes: to identify problems hampering social cohesion, identify key policy challenges, and put forward key policy priorities for Kosovo and for the region (Figure 11.1).

Figure 11.1. Achieving social cohesion in Kosovo and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Over the last decade, Kosovo has made remarkable progress across several dimensions of social cohesion. Despite a narrow productive base, with an average rate of 4.9% in the period 2015-19, Kosovo's economic growth has been the highest in the Western Balkans (World Bank, 2021[2]). Kosovo has also made important steps towards institution building. As a result, living standards have improved and life satisfaction is the highest in the region: at 6.4[1] in 2019, it surpassed the regional average of 5.9 (Gallup, 2020[3]). Citizens of Kosovo feel comparatively safe when walking alone at night and are satisfied with their housing and the road infrastructure.

To sustain the pace of building a socially cohesive society, Kosovo must now tackle a set of important problems that remain (Figure 11.1)**.** The 2020 unemployment rate was 25.9%, and the employment-to-population ratio amounted to 28.4%, one of the lowest in the world. At the same time, most (69.1%) unemployed persons find themselves in this state for one year or longer. Weak labour market outcomes especially affect youth and women. More than one-third of young persons (aged 15-24) were

not in employment, education and training (NEET), the highest share among Western Balkan economies and 2.5 times the OECD average. At the same time, almost 80% of women were inactive in the labour market in 2019. Some ethnic communities continue to face worse outcomes than the rest of the population. The unemployment rates among Roma, Ashkali and Egyptian communities are about 90% (European Commission, 2019[4]). Social protection coverage is fragmented and comparatively low. In turn, social protection expenditure falls short of international comparisons and is not well targeted to those most in need, leaving many poor families unassisted. The low capacity of local governments, in combination with weakly-targeted intergovernmental grants to municipalities, does not provide for adequate social care.

Six priority actions have great potential to foster social cohesion in Kosovo, with strengthening the link between the labour market and skill formation being the key peer-learning priority:

- Strengthen the link between the labour market and skill formation, including education and active labour market policies (ALMPs) (peer-learning priority)
- Create equal opportunities for vulnerable groups to participate in the labour market
- Strengthen women's role in society by supporting their integration into the labour market
- Create a more inclusive and fair social security system
- Strengthen targeting and equity of social assistance
- Deliver community integrated social care services

This chapter is divided into three sections. Sections 11.1 and 11.2 provide policy implications across the six policy actions through a prism of challenges specific to Kosovo. Section 11.3 provides indicators against which progress in implementing all the policy priorities for Kosovo can be measured. This chapter is complemented by the regional chapter on social cohesion (Chapter 8) by providing more specific policy options based on international practices that may be applied, albeit to a different degree, also to Kosovo.

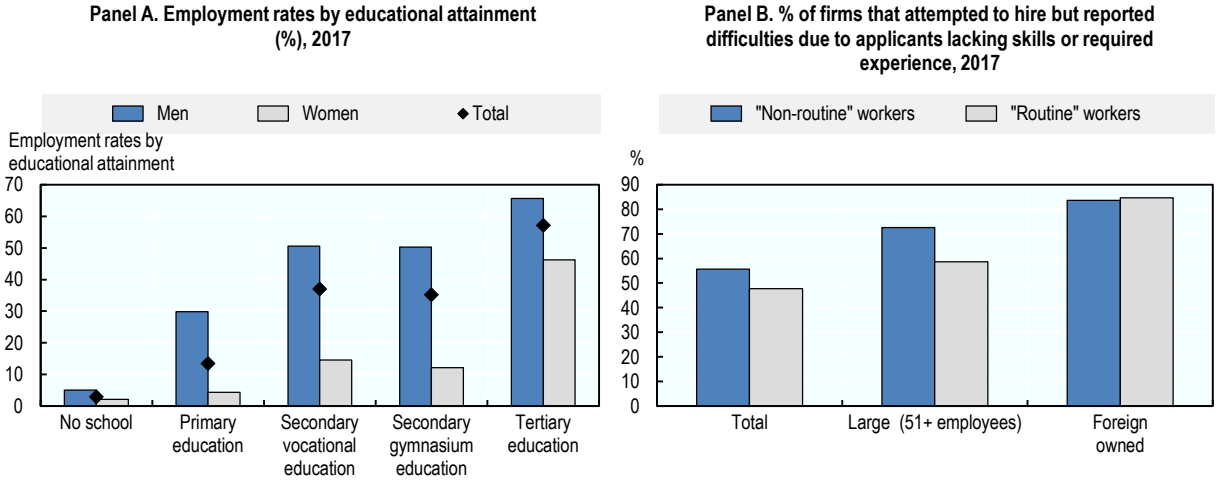
11.1. Supporting people in Kosovo to find opportunities in the labour market

11.1.1. Strengthen the link between labour market needs and skill formation

Peer-learning participants from Kosovo selected strengthening the link between the labour market and skill formation as a key priority to bring people into the labour market and to create jobs (Box 11.1). Almost half of job seekers in Kosovo have no formal education or only primary education and could benefit from well-targeted upskilling and reskilling (Figure 11.2 – Panel A). Likewise, employers do not find the right skills among workers: 44% of firms report being constrained by the inadequately educated workforce. Skills gaps are particularly high in larger firms and foreign firms (Figure 11.2 – Panel B). High emigration is widening the skills gap, especially in the areas of information technology (IT) and medicine (European Commission, 2020[5]). Poor links between the labour market and skill formation explain the current skills gaps, both when it comes to formal level of education and the level of adult learning. Considering its income level, the economy's performance in the Programme for International Student Assessment (PISA) is very low (Figure 2.1 of Chapter 2). About 37% of adults do not pass the very basic level of literacy tests (compared to 15% in Austria) (World Bank/WIIW, 2020[6]).

Figure 11.2. Many Kosovars with lower educational attainment find it difficult to secure employment and enterprises cannot find the needed workforce

Employment rates by educational attainment (%), 2017 (Panel A), and % of firms that attempted to hire but reported difficulties due to applicants lacking skills or required experience, 2017 (Panel B)



Note: Panel B - The graphs show the share of firms that attempted to hire but reported difficulties due to applicants lacking skills or required experience. "Non-routine" jobs refer to managers, professionals and higher-level technicians, whose job descriptions usually contain "non-routine" cognitive and socioemotional tasks. This corresponds to Type A occupations in STEP methodology. "Routine jobs" refer to all other occupations, which are Type B occupations in STEP methodology. Note that although Type B occupations are mostly "routine" jobs, they can include some "non-routine" manual tasks.
Source: Panel A - Kosovo Agency of Statistics (2021[7]), Askdata (Database), https://ask.rks-gov.net; Panel B - adapted based on World Bank/WIIW (2020[6]), Western Balkans Labour Market Trends, https://wiiw.ac.at/western-balkans-labor-market-trends-2020-dlp-5300.pdf (original estimates based on the World Bank STEP Employer Surveys).

StatLink https://stat.link/bgxyk9

To close the current skills gap, peer-learning participants from Kosovo selected three major policy measures related to skill formation. The three measures include: adapt education programmes to focus on labour market needs; foster linkages with the labour market through ALMPs; and mobilise tools to better measure and anticipate skills needs in the labour market. Participants also identified several actions needed to start implementing the selected measures (Table 11.1 in Box 11.1).

Both vocational education and training (VET) and university education need to be modernised and better aligned with labour market needs, the first peer-learning policy measure. VET is an important branch of the education system, with around half of pupils in upper-secondary education choosing these tracks (Kosovo Agency of Statistics, 2021[7]). VET programmes, however, are not well aligned with labour market needs: an estimated 77% of VET profiles are not based on occupational standards, reflecting a large discrepancy with labour market demand (KEC, 2021[8]). Furthermore, outdated curricula and profiles do not prepare students for the workplace. Curricula in Kosovo's VET schools have traditionally focused on subject and content knowledge rather than skills. Combined with low teaching quality and lack of opportunities for practical work-based learning, this has resulted in graduates who are ill-prepared for the job market (ETF, 2019[9]). At the university level, the key issue is that many people enrol in social sciences and very few in STEM fields (science, technology, engineering and math). At the same time, at the higher education level, there is very low commitment to scientific work among professors. For VET, peer-learning participants provided several priority actions, stressing the need to revise curricula and strengthen collaboration with the private sector, such as through work-based learning (Table 11.1).

Second, ALMPs, should be an integral part of the process in creating opportunities for people to flourish in the labour market, both as skilled employees and potential entrepreneurs. In 2020, Kosovo's unemployment rate was 25.9%, the highest in the region (Kosovo Agency of Statistics, 2021[10]), with 71.7% of the unemployed being long-term unemployed (Figure 8.2 in Chapter 8). Likewise, many young people (aged 15-24), women and citizens from vulnerable groups – including Roma, Ashkali and Egyptians – are unemployed (Figures 8.3 and 8.7 of Chapter 8). Poor labour market integration of these groups can lead to loss of skills, hamper entrepreneurship, lead to long-term reliance on welfare assistance and emigration. The young face particularly dire situations when it comes to school-to-work transitions. Even those young that have employment often have poor quality jobs, reflected by low wages and precarious work conditions. About 60% of youth work without a contract, while 80% of those with a contract are temporarily employed (World Bank, 2020[11]).

Current strategic documents show labour market integration of vulnerable groups as one of the key priorities in Kosovo; a more comprehensive and better co-ordinated implementation of ALMPs would be required to address labour market challenges. The key strategy document is the Sector Strategy on Employment and Social Welfare 2018-2022 and its Action Plan on Increasing Youth Employment 2018-2020 (World Bank, 2020[11]). On average, only 8.5% of the registered unemployed participate in ALMPs, although the share of unemployed youth participating is higher (about 23%) (Table 8.3 of Chapter 8). Kosovo has a relatively large number of ALMPs; however, they tend to be fragmented across different institutions, are small in scale and depend on donor funding. At the same time, while the key institution for the implementation is the Employment Agency, the implementation of various measures is often very limited due to budgetary constraints. With EUR 6.6 million (0.09% of GDP) (Rizvanolli, Gashi and Joshua, 2019[12]), spending on ALMPs is very low compared with the OECD average of 0.42% (World Bank, 2019[13]).

Further, effective implementation of ALMPs requires adequate capacities within the Employment Agency, especially in working with the private sector. High workload limits the effectiveness of the Employment Agency: the ratio of job seekers to counsellors is about 770:1, one of the highest client-to-staff ratio in the region (Table 8.4 of Chapter 8). The ratio remains high against international benchmarks such as Slovenia (137:1) (Chapter 8). Given the lack of resources, the Employment Agency is not in the position to set ambitious goals. Considering there were about 84 000 long-term unemployed persons in 2019 (World Bank/WIIW, 2021[14]), a plan to reintegrate 3 000 long-term unemployed persons in the labour market through public employment and training (reform measure 18 in the Economic Reform Programme 2021-2023) (European Commission, 2021[15]) is very small. At the same time, monitoring and evaluation of ALMPs is very limited, which undermines efforts to improve ALMP effectiveness and their impact on the employability of participants (European Commission, 2021[15]). Recent evaluation shows that the Employment Agency does not sufficiently engage with the private sector for its wage subsidy programme[2] when selecting participants. Of all enterprises that participated in the wage subsidy programme, only about 36% employers have actually reviewed participant CVs and only 22% interviewed candidates. This lack of engagement in selection likely limits the participants' prospects for keeping jobs after the subsidies have been exhausted: 60% of subsidised workers stayed in the company for less than 12 months (Rizvanolli, Gashi and Joshua, 2019[12]). At the same, this implies suboptimal use of public finances.

Finally, to better align skills formation and ALMPs with labour market needs, Kosovo should mobilise tools to better measure and anticipate skills needs in the labour market. To inform policies, peer-learning participants emphasised the need to put in place mechanisms that will allow measurement and anticipation of skills needs. First, they envisaged establishing a platform to match the labour force with current and future labour market demands across different sectors. Complementarily they stressed the need to develop and implement the Skills Forecasts System. Finally, they highlighted also the need to specifically focus on measuring and anticipating ICT skills needs, given its large potential. To successfully anticipate future skills, international experience shows that two elements matter: first, it would be important to ensure broad participation of stakeholders in the process, including workers, the private sector and

public administration; and second, a direct relationship between the data generated and public policy is also important (OECD, 2016[16]).

Box 11.1. Strengthen links between the labour market and skill formation

To strengthen links between the labour market and skills formation, peer-learning participants suggested several measures that would complement current policy efforts in Kosovo. More specifically, participants from Kosovo, representing the Office of the Prime Minister, the Ministry of Regional Development, the Employment Agency, and the Civil Rights Program of Kosovo, suggested three key measures (Table 11.1):

- Adapt education programmes focusing on labour market needs.
- Foster linkages with the labour market through ALMPs.
- Develop a system to measure and anticipate skills needs in the economy.

Table 11.1. Peer-learning priorities in Kosovo

Priority measures	Priority actions

Adapt education programmes focusing on labour market needs	• Strengthen VET schools:
	  ○ Revise the curricula
	  ○ Provide more funding and define clear funding criteria
	  ○ Set up a mechanism to collaborate with the private sector (in curricula revision and work-based learning)
	  ○ Train teachers on implementation of core curriculum and in specific technical areas
	  ○ Implement the new curricula in schools for 11th and 12th grades (pilot projects in Phase 1 and full implementation in Phase 2)
	  ○ Leverage the new Centre of Competence (CoC) in ICT in Pristina, funded by the Luxembourg Development Agency (LuxDev)
	  ○ Engage in collaboration with the private sector based on the established mechanism
	  ○ Strengthen implementation of dual learning (combination of learning in schools and in enterprises)
	  ○ Introduce a salary subsidy scheme to allow better integration of VET graduates into the labour market
	• Strengthen universities:
	  ○ Adapt university curricula based on the labour markets
	  ○ Introduce quotas for university programmes with the view of encouraging future students to enrol in STEM fields
	  ○ Undertake research at universities in collaboration with industry for more effective implementation of the Smart Specialisation strategy

Foster linkages with the labour market through ALMPs	• Establish better linkages between the private sector and the Employment Agency
	  ○ Identify labour market stakeholders
	  ○ Create a platform for a dialogue between private sector and employment agencies (e.g. through regular meetings) on skills needs
	  ○ Take advantage of existing jobs by increasing collaboration between employers and public employment services
	• Strengthening the capacities of the public employment agency to ensure personalised and adapted approach to individual needs
	• Align the wage subsidy system with priority areas to allow better integration of VET graduates into the labour market

Develop a system to measure and anticipate skills needs in the economy	• Establish a platform to match the labour force with current and future labour market demands across different sectors • Develop and implement the Skills Forecast System • Functionalise the digital platform for labour market skills planning for ICT, by expanding data on ICT business

Putting the three measures into action will require several conditions including: cross-institutional collaboration (e.g. between the Ministry of Education, Science and Technology, the Ministry of Labour and Social Welfare, the Ministry of Economy, the business community, academia and others) and co-ordination (e.g. between the Ministry of Education, Science and Technology, the Employment Agency

and education institutions) on specific activities, such as developing curricula and types of training activities, and ensuring adequate budgets.

Source: OECD peer-learning workshops.

To increase the impact ALMPs in Kosovo, it is imperative to increase coverage among the most vulnerable groups, while ensuring effective placement. Although the share of registered unemployed participating in ALMPs (8.5%) in Kosovo is the highest in the region, significant scope still exists to increase coverage (Table 8.3 of Chapter 8). Substantially higher shares were seen in Croatia (22.1%), Slovak Republic (26.8%) and Hungary (71.4%) in 2016 (European Commission, 2021[17]). The share of registered unemployed young was higher at 22.9% (Table 8.3 of Chapter 8). Women represent only 35% of ALMP beneficiaries (Stanko, 2021[18]), with the low share participating likely to reflecting that only few women register as unemployed and are entitled to participate in ALMPs. Efforts to reach out to all women could be an important lever to bring them back to the labour market and create new opportunities. Although about 90% of Roma and Ashkali are estimated to be unemployed, they often do not register with the Employment Agency and are targeted through only a few measures[3] (OECD, 2021[19]). Finally, placement in various ALMPs is often not very effective. Recent evaluation shows the hard-to-place categories are often placed in ALMPs that do not fit well with their previous education and training (Rizvanolli, Gashi and Joshua, 2019[12]).

Strengthening labour market institutions is also important, especially considering poor working conditions for many and high rates of informality. Average weekly working hours in formal work in Kosovo are well above regional and EU averages, the likelihood of which is increased by the fact that the majority of workers hold temporary contracts (Figure 11.4 of the Initial Assessment Report on Kosovo). About 18.1% of all formal employees work more than 50 hours per week, more than double the OECD average of 7% in 2018 (OECD, 2020[20]). In many sectors, workers do not receive financial compensation for long working hours, due to either lack of employer adherence to working contracts or lack of work contracts altogether. While low labour demand and high labour supply provide scope for such abuses, inadequately designed labour law, the weak capacity and efficiency of labour inspectorates, and the lack of trade unions, especially in the private sector, intensify the issue (Jakurti, 2020[21]). *Labour inspectorates lack human and financial resources and technical equipment (inspectorates still use paper documentation for internal processes). In parallel, limited collaboration with other relevant institutions, such as tax authorities, leads to uncoordinated and extensive visits to businesses, which raises the cost of operating formally* (World Bank, 2017[22]). *Finally, occupational safety* should also be improved. With 6 fatal accidents *per 100 000 employees in 2018,*[4] *Kosovo surpasses some other benchmark economies such as Croatia (1.8 in 2015), the Slovak Republic (1.7 in 2014) and Greece (1.3 in 2014).*[5]

11.1.2. Create equal opportunities for vulnerable groups to participate in the labour market

In its efforts to create a socially cohesive society for all, Kosovo needs to create equal conditions for labour market participation for all, while paying particular attention to vulnerable groups including Roma, Ashkali and Egyptians. Although population estimates vary significantly, as many as 2.1% of the Kosovo population could be Roma, Ashkali and Egyptian (ILO, 2017[23]).[6] Many members of the Roma and Ashkali communities, in particular, live in poverty and trail behind the rest of the population in many ways (European Commission, 2020[24]). Only 13% of Roma participated in employment in comparison to 20% of non-Roma neighbours in Kosovo, the lowest rate in the region. The Ashkali community also faces poor labour market outcomes: 16% of the community has been registered as unemployed (compared with 19% of Roma) (Huibregtse, 2018[25]). Those with employment often work in the informal sector and low-skilled jobs, characterised by high insecurity and low status (European

Commission, 2020[24]). Both groups are also left behind in terms of other dimensions of well-being, including low health coverage, poor access to education, and limited access to public services and infrastructure (Robayo-Abril and Millan, 2019[26]; European Commission, 2020[24]).

Ensuring better opportunities to obtain high quality education is one of the key levers for creating employment opportunities for Roma, Ashkali and Egyptians. In 2017, only 68.1% of Roma, Ashkali and Egyptian children entered primary school compared with 91.6% of the overall population. At the upper-secondary level, only 30.3% or Roma and Ashkali attended education, compared with 82% of the overall population. Significant dropout rates are also seen in these communities (Huibregtse, 2018[25]). Non-attendance and dropout from school are also due to high prevalence of poverty among these communities, with some children being required to support their families by earning income. Child labour (5-17 years) is more prevalent (16.6%) among Roma, Ashkali and Egyptian communities than in the overall population (10.7%) (ILO, 2017[23]). Roma, Ashkali and Egyptian community members also lag in terms of education outcomes, with lower literacy rates for both women (73%) and men (87%), compared with 98% of the overall population (Huibregtse, 2018[25]). A significant number of young persons (15-24) do not participate in employment, education and training – 78% of Roma, in comparison to 47% of non- Roma neighbours and 27% of the general population (Robayo-Abril and Millan, 2019[26]).

Kosovo is making efforts to improve educational outcomes for the Roma, Ashkali and Egyptians, but remains dependent on donor initiatives due to lack of funding. Enrolment rates in universities for students from the Roma, Ashkali and Egyptian communities have increased steadily in recent years. Learning centres, often established and funded by donors, have contributed to higher enrolment and lower dropout rates from compulsory education (European Commission, 2020[24]).

11.1.3. Further strengthen women's role in society by supporting their integration into the labour market

Considering the large gender gap, creating conditions across all sectors for equal labour market participation between women and men can contribute toward higher economic growth and greater social cohesion in Kosovo. Women's employment outcomes lag significantly behind international benchmarks (Figure 8.4 of Chapter 8). At 20.8% in 2020, Kosovo has one the lowest rate of women's labour market participation in the world (Table 8.6 of Chapter 8). Given the low labour market participation, only 14.6% women receive pensions (Government of Kosovo, 2020[27]). While the gender pay gap (10.5% in 2017) is below the EU average (12.9%), considerable variation exists between education levels. For persons with no or primary education, the unadjusted gender pay gap stood at 24% (Government of Kosovo, 2020[27]).

Addressing weaknesses in maternity leave and improving options for paternity leave would be an important step forward. A survey among men and women in Kosovo found that about one-third of respondents blame maternity leave as the main reason for discrimination of women in the labour market (Morina and Delibashzade, 2017[28]). Moreover, the fact that employers have to fully finance the maternity leave for the six months of leave, acts as a disincentive to employ women of child-bearing age (Garcia Martinez and Cucchi, 2017[29]; European Commission, 2019[4]).

Increasing options for childcare can unleash space for women to join the labour market. Limited care facilities for both the elderly and children act as an additional barrier to women participating in the labour market. In 2017/18, only 4% of Kosovar children aged 0 to 5 attended public preschool education, including kindergartens and nurseries (World Bank, 2017[22]; Thaçi, Rraci and Bajrami, 2018[30]). Likewise, given Kosovo's poor performance in the recent OECD Programme for International Student Assessment (PISA), investing in early childhood education and care (ECEC) can improve performance at later stages. A new law on ECEC is in preparation, which aims (among others) to facilitate the licensing of pre-school facilities other than public, particularly through community-based and public-private partnerships (PPPs) (Haxhikadrija, 2019[31]).

Improving reproductive health services and the availability of contraception can further increase women's labour market participation by reducing the number of unwanted pregnancies. Women in Kosovo have limited access to reproductive healthcare services and are often unaware of the availability of such services. In a survey on health by the Kosovo Women's Network, only 35% reported knowing that Main Family Medicine Centres provided reproductive health services. Use of modern contraceptives remains low: only 11% of women reported usage. Likewise, 82% of respondents had never had a doctor or nurse explain a family planning method to them (Farnsworth, Goebbels and Ajeti, 2016[32]).

Cultural norms also play a role in women's low labour market participation and could be addressed through awareness raising, both in the education sector and among the general public. Traditional gender roles in Kosovo assign the responsibility for care roles in the family, attending the needs of their children and completing household chores almost exclusively to women (World Bank/Ministry of Labour and Social Welfare/Public Employment Agency of Kosovo, 2018[33]; UNICEF, 2017[34]). A survey found that about half of respondents state women's care responsibilities for children and elderly in the family as the key reason for their labour market inactivity, while 30% named the lack of employment opportunities. Additionally, 60% of respondents agreed that women face discrimination in the labour market, with more than 40% of them blaming patriarchal mind-sets for such discrimination (Morina and Delibashzade, 2017[28]).

Improving property rights and ownership also matters for improving conditions for women to engage in the labour market and potentially become entrepreneurs. Only 7% of businesses in Kosovo are owned by women, substantially lower than the regional average of 32% in 2019 (World Bank, 2019[35]). Women's access to finance is limited in Kosovo: only 15% of women business owners have used commercial bank loans (Stanko, 2021[18]). Lack of property ownership by women is among the underlying factors. Only 8% of women owned real estate and land in 2014, which they would need as collateral in order to make their businesses grow over time. Despite equal property rights of men and women by law, women are found to often lose their inheritance for the benefit of their brothers (UNICEF, 2017[34]). Property ownership of women is even less common in rural areas (World Bank/Ministry of Labour and Social Welfare/Public Employment Agency of Kosovo, 2018[33]).

To address gender gaps, Kosovo should build on progress to promote, enforce and monitor equality and non-discrimination based on sex. The government has placed women's integration in the labour market high on the economy's agenda, both as part of its Strategy on Employment and Social Welfare 2018-2022 and as a priority area for the recently established Employment Agency. Likewise, a legal framework for women's rights is in place (Law on Protection from Discrimination).

11.2. Building effective, inclusive and financially sustainable social protection in Kosovo

11.2.1. Creating a more inclusive and fair social security system in Kosovo

Closing the gaps in the social security system, in terms of both unemployment and health insurance, can provide better social protection to Kosovars in time of need. First, Kosovo has no unemployment insurance scheme in place;[7] financial support for the unemployed is mainly provided by the last-resort income support Social Assistance Scheme (Section 11.2.2). Without publicly available health insurance, citizens bear an estimated 40% of total healthcare costs out-of-pocket, compared to an average of 13% in the OECD (Kosovo Women's Network, 2016[36]; World Bank, 2021[2]).

Kosovo has a solid pension system in place, yet proper incentives are required to ensure its appropriate functioning and financial sustainability. Kosovo currently has a three-pillar pension system, which has important advantages in terms of implementation, coverage and transparency.[8] In 2018, the existing system was supplemented by an ex-contributory pension scheme for those who could prove

they had contributed over 15 years to the former Yugoslav pay-as-you-go system. It sets a minimum contributory pension of EUR 158, which constitutes 44% of the average net wage (World Bank, 2018[37]). Despite having a solid pension design, lack of private savings and overreliance on government revenues to finance pension expenditure is affecting pension adequacy and – in the absence of major reforms – might jeopardise its long-term financial sustainability. Currently, pensions rely mostly on Pillar I, which is government funded: 95% of all pensions come from government revenues (Mustafa, 2021[38]). Contributions to Pillar II make up 10% of gross wages (Mustafa and Haxhikadrija, 2019[39]). Given the low employment rates in Kosovo, the majority of citizens do not save under Pillar II (Mustafa, 2021[38]).

Plans to reform social protection in Kosovo by introducing a Social Insurance Fund and Health Insurance Fund are a subject of continued discussion. A 2019 concept note proposed the introduction of a Social Insurance Fund aimed to provide a full reform of the pension system, work disability, sick leave and unemployment insurance (Mustafa and Haxhikadrija, 2019[39]). The reform would shift the current financing of social protection expenditure towards contributions paid by the employed and employers.[9] Details about the reform approach by the new government remain open (Gashi, 2021[40]). Likewise, the highly anticipated Health Insurance Fund (created by the Law on Health Insurance adopted in 2014 (Republic of Kosovo, 2014[41])) needs to be implemented and sustainably financed, as it includes important steps towards universal access. The envisaged Health Insurance Fund would be financed by contributions of 3.5% of gross wages paid by employees and employers (Mustafa and Haxhikadrija, 2019[39]). Several potential drawbacks are noted. First, it may increase the tax wedge; second, given Kosovo's high unemployment rates, it is unclear how much can be raised through contributions; and third, a large share of the unemployed and those who work informally would not be covered through such a scheme (Gashi, 2021[40]).

11.2.2. Strengthen targeting and equity of social assistance for those most in need

Social assistance in Kosovo should ensure better equity by better prioritising persons in need. The three main programs of social assistance in Kosovo are the Social Assistance Scheme (SAS), a universal basic pension and a status-based war veteran's pension (Table 8.A.3 of Chapter 8). In 2016, veteran-related benefits (1.6% of GDP) received larger expenditure than the means-targeted social assistance scheme (0.48% of GDP) (World Bank, 2018[37]), limiting the poverty-reduction impact of social assistance spending.

Kosovo's SAS, a key poverty-reduction scheme, could increase its impact on poverty reduction by reassessing its current categorical exclusion criteria, which are likely to exclude many poor persons and create disincentives for work. Despite 18% of persons in Kosovo living in poverty in 2017 (Haxhikadrija, 2020[42]), only 6% of persons were receiving social assistance (European Commission, 2020[5]), the only programme aiming specifically to protect against poverty, and only about 35% of households in the poorest income quintile were receiving SAS (Haxhikadrija, 2020[43]). At 11.7%, the effectiveness of social transfers in reducing the at-risk-of-poverty rate in Kosovo was very low, compared with an EU average of 33.2% in 2018 (Government of Kosovo, 2019[44]).The categorical eligibility criteria – such as land ownership, size of dwelling, household composition (e.g. youngest child is younger than five),[10] income from other sources (including basic pensions), and having more than one family member able to work – should be reassessed, as they often exclude persons in need. The latter (i.e. when a second family member becomes able to work, for example because he/she reaches 18 years of age) may act as an disincentive to work, as the family no longer qualifies for SAS unless one of the able-bodied members of the household seeks dependent status (for example by obtaining diasability certification). Likewise, even low-paid formal work renders the family of the working individual ineligible for SAS (World Bank, 2019[45]).

Complementarily, a basic pension has been an important tool of old-age poverty alleviation in Kosovo. The universal basic pension provides every citizen over 65 years old residing in Kosovo with a benefit of EUR 100 per month, which translates into an adequacy of 97.2% of the at-risk-of-poverty

threshold. This renders the basic pension a more generous social transfer than the SAS (Table 8.A.3 of Chapter 8). At 2.43% of GDP in 2020, spending on the basic pension was more than double that of SAS funding (IMF, 2021[46]). For families who qualify for SAS, when calculating benefit levels, the amount given will be reduced by excluding any individual recipients of basic pension from the family size (World Bank, 2019[45]).

To improve equity of the SAS, it would be important to contain growth in spending on status groups. War veteran's pensions, in contrast, cover 165.2% of the poverty threshold. War veterans receive pensions regardless of age and employment status (Table 8.A.3 of Chapter 8); in 2020, pensions were granted to 38 156 persons. In reaction to increased spending on war-related benefits in recent years, veteran pensions have been the subject of reform attempts. A cap on spending of 0.7% of GDP (introduced in 2016) has been unsuccessful given the continued high expenditure of 1.1% of GDP on them in 2020 (IMF, 2021[46]).

Reform plans in Kosovo aim to further promote inclusion into the labour market while reducing poverty. Reforming the SAS has been subject to a concept note in 2019, which envisages three main changes: removing the strict categorical eligibility criteria; introducing a new poverty test that would include all observable income and household members; and applying an equivalence scale to give more weight to larger households (Gashi, 2021[40]). With these changes, the expected impact of SAS on poverty reduction is estimated to be 29.4% (up from 11.7% currently). The number of beneficiaries would increase from 106 416 to 167 766 (Haxhikadrija, 2020[42]). Also, by allowing SAS beneficiaries to gain income for a limited period of time, while being encouraged to look for work, disincentives to work would be removed (Haxhikadrija, 2020[42]). Reform of the SAS is one of the aims listed in the Government Programme 2021-2025; the impacts of its implementation remain to be seen (Gashi, 2021[40]).

11.2.3. Deliver social services through a community integrated approach

Establishing community-integrated social services is one of the key regional policy priorities that emerged from the peer-learning workshops. As indicated in Chapter 8, community-integrated social services encompasses a range of approaches and methods for achieving greater co-ordination and effectiveness among different services, such as elderly care, healthcare, education and others, with the objective to achieve improved outcomes for services users.[11] During the OECD peer-learning workshop, participants stressed the importance of community-integrated social services as a key lever to strengthen social protection, deliver social care services and reduce long-term dependency on social welfare through better labour market integration.

To create an integrated approach, it would be important to target local government spending more strategically. The Law on Local Self-Government (2008) assigns to municipalities full and exclusive competencies for providing social services locally (Surdulli and Kelmendi, 2021[47]). In line with the competencies transfer, the Ministry of Labour and Social Welfare financing for social services is supported through a general grant for each municipality. Local government revenues represent 28.8% of total public revenues in 2019, which is high compared with the region (Figure 8.14 of Chapter 8). However, in contrast to health and education spending, where funding is based on factors such population size, age, number of staff and care centres, no specific financial formula exists for social service delivery to be allocated to the municipalities; this limits provision of social services in Kosovo (Shehu et al., 2018[48]).

Improving capacities of local stakeholders and providing better population data can improve delivery of social services. The Centres for Social Work offer mainly services for cases of violence in the family and to place orphaned and abandoned children in families. Services to the sick and disabled are managed by NGOs. Yet, social services are of poor quality – or even absent – in some municipalities, with smaller ones struggling more to allocate funds to services (Mustafa and Haxhikadrija, 2019[39]). Many municipalities also lack accurate data on population, which negatively impacts planning and implementation of activities (Mehmeti, 2018[49]).

Completing the decentralisation of social services in Kosovo through the adoption of the Law on Social and Family Services and the Law on Local Government Finance, and by ensuring their subsequent implementation, can create supportive conditions for a community-integrated approach. First, the draft of the Law on Social and Family Services, which provides clear assignment of roles and responsibilities between central and municipal level, has not been finalised and submitted for adoption. At the same time, clarity is needed on the approach to deliver new social services, including their management, contracting, reporting, monitoring and communication. Second, the draft of the Law on Local Government Finance envisages establishing a Specific Grant for Social Services, which will also include administrative instructions for distribution of the funding. Survey findings indicate that Centres for Social Work will require capacity building in budget planning and management, if funding will be disbursed to them directly (Surdulli and Kelmendi, 2021[47]).[12]

The creation of the Social Registry may help improve co-ordination among all actors. Co-ordination between social services and Employment services is currently a challenge, hampering efforts to create community-integrated approach to social services. The Social Registry, which is currently being developed is planning to link education, health services, social services and employment services (Haxhikadrija, 2020[42]).

11.3. Indicators to monitor the overall policy progress in Kosovo

To monitor policy progress in improving labour market integration of vulnerable groups and addressing other policy priorities in Kosovo, the OECD suggests a set of key indicators. These are set out in Table 11.2 which includes values for Kosovo and benchmark countries (either the OECD or the EU average, based on data availability).

Table 11.2. Indicators to monitor progress in implementing policy in Kosovo

2019, unless otherwise specified

Indicators	Kosovo	Benchmark value
Long-term unemployment (% of total unemployment)	69.1	25.8
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	33.7*	15.5*
Labour force participation rate (gender gap)	30.4*	16.5*
In-work at-risk-of-poverty rate (%)	7.2**	9.2
At-risk-of-poverty rate (%)	27.9	16.2*
ALMP participants (% of registered unemployed)	8.5**	71.4**
Caseloads (number of jobseekers) of public employment service (PES) staff	769****	139****
Unemployed persons receiving unemployment benefits (% of all unemployed)	-	45.7*
Persons above retirement age receiving a pension (% of persons above retirement age)	-	95.8*

Note: *2020, **2018 ***2017, ****2016. The benchmark values are based on the current OECD averages, with the following exceptions: *In-work at-risk-of-poverty rate (%)* for which the benchmark value is based on the EU average; *Caseloads (number of jobseekers) of public employment service (PES) staff* and *Persons above retirement age receiving a pension (% of persons above retirement age)* for which the benchmark value is based on Slovenia; and *ALMP participants (% of registered unemployed)* for which the benchmark value is based on Hungary.

Source: World Bank (2021[2]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ILO (2021[50]), *ILOStat* (database), https://ilostat.ilo.org/data/; CPESSEC (2019[51]), Centre of Public Employment Services of Southeast European Countries, https://www.docdroid.net/qvBC3jr/statisticki-bilten-br-9-cpessec-finalno-converted-pdf; RCC (2021[52]) Regional Cooperation Council, https://www.rcc.int/download/docs/Study-on-Youth-Employment-in-the%20Western-Balkans-08072021.pdf/7464a4c82ee558440dfbea2e23028483.pdf; Jahja Lubishtani (2018[53]), The Effectiveness of Active Labour Market Policies in Reducing Unemployment in Transition Economies, https://core.ac.uk/download/pdf/226765796.pdf; World Bank (2018[54]), Functional Reviews of the Public Employment Services in the Western Balkans, https://openknowledge.worldbank.org/bitstream/handle/10986/35656/Functional-Reviews-of-the-Public-Employment-Services-in-the-Western-Balkans-Overview.pdf?sequence=1&isAllowed=y; European Commission (2016[55]), Assessment Report on PES Capacity, https://ec.europa.eu/social/BlobServlet?docId=16967&langId=en; OECD (2021[19]), *Competitiveness in South East Europe 2021: A Policy Outlook*, https://doi.org/10.1787/dcbc2ea9-en; Kosovo Agency of Statistics (2021[56]), Kosovo Agency of Statistics (database), https://ask.rks-gov.net/en/kosovo-agency-of-statistics; World Bank/WIIW (2021[14]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html.

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Notes

[1] On a scale of 0-10.

[2] Wage subsidy stipulates the signing of an employment contract of at least 12 months between the employer and the subsidised worker, although the actual subsidy is of shorter duration (Rizvanolli, Gashi and Joshua, 2019[12]).

[3] Some targeted programmes are offered in the field of adult learning, such as "Literacy for women and girls" for Roma, Ashkali and Egyptian communities (OECD, 2021[19]).

[4] Calculation based on European Commission fatal accidents data (European Commission, 2019[4]) and SEE Jobs Gateway employment data (World Bank/WIIW, 2021[14]).

[5] Calculations based on World Health Organization data (WHO, 2018[58]).

[6] Data based on the 2011 census.

[7] During the COVID-19 pandemic, benefits were exceptionally allocated to support the unemployed (OECD, 2021[19]).

[8] Pillar I (Statutory pension schemes) is financed and managed by the government. Pillar II (a statutory funded scheme of individual pension savings) is managed by the Kosovo Pension Savings Trust (KPST). Pillar III comprises supplementary pension schemes.

[9] Currently, the system is financed largely through taxes; employers and employees both pay contributions only for pensions (mandatory 5% for each).

[10] This may exclude many poor families with school-age children and is very unique to Kosovo (World Bank, 2019[45]).

[11] Definition from the Council of Europe (CoE, 2007[57]).

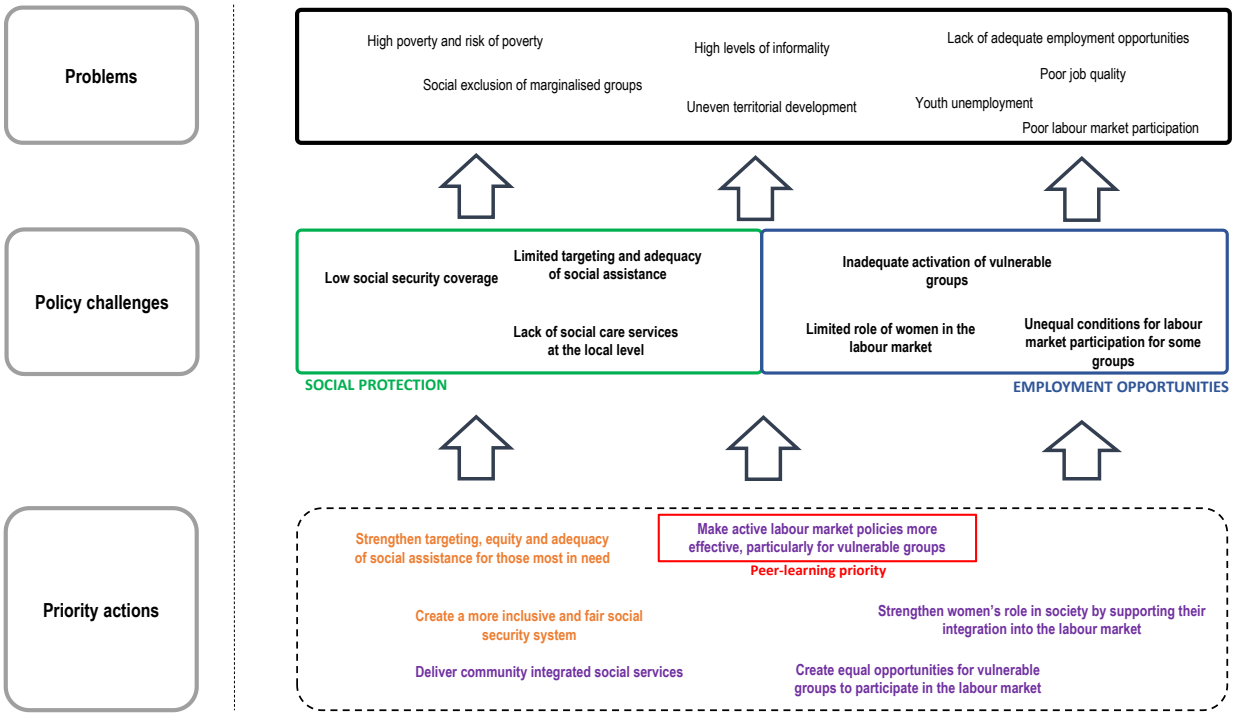
[12] Draft Law on Local Government Finance has been in the drafting process since 2019 has not been adopted, with potential reasons for postponement being the Covid-19 pandemic and changes in government (Surdulli and Kelmendi, 2021[47]).

12 Fostering social cohesion in North Macedonia

Over the past decades, North Macedonia has achieved great progress in building a socially cohesive society. With income per capita almost doubling in real terms between 1995 and 2020, extreme poverty was reduced and living standards increased. In recent years, North Macedonia has undertaken important social protection reforms. To sustain this progress, this chapter provides key policy priorities to foster social cohesion through labour market and social protection policies. As creating more jobs is a top priority, growth-enhancing policies need to be complemented by solid active labour market policies that boost participation of many unemployed and vulnerable citizens. This requires solid capacities in the Employment Service Agency (ESA) and broad-based collaboration among the ESA, the private sector, education institutions, social care services and non-governmental organisations. While the social protection system in North Macedonia has benefited from various recent reforms, including the introduction of guaranteed minimum assistance in 2019, existing gaps in adequacy and coverage still need to be addressed. A shift towards community-integrated social services, provided locally, can create pathways by which people in need integrate into society and the labour market.

Key elements of social cohesion ranked very high in North Macedonia in the Initial Assessment of this Multi-dimensional Review of the Western Balkans - good governance, public services, rule of law and justice, decentralisation, quality health services, and freedom of expression. A socially cohesive society is a society that creates the ability and willingness of its members to undertake collective action for the improvement of societal well-being of all its members. Building on the Initial Assessment, the "From Analysis to Action" phase of the project provides suggestions to foster social cohesion in North Macedonia and in other economies of the Western Balkans. The peer-learning workshops on social cohesion (Box 8.1 of Chapter 8), an integral part of the project's second phase, serving three complementary processes: identification of problems hampering social cohesion, identification of policy key policy challenges, and putting for forward key policy priorities for North Macedonia and for the region (Figure 12.1).

Figure 12.1. Achieving social cohesion in North Macedonia and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Since its independence, North Macedonia has achieved significant success across various dimensions of social cohesion. Income per capita doubled and the economy's status moved from lower middle-income to upper middle-income. The economy is relatively more peaceful than others in the region and is increasingly safer (the intentional homicide rate has been decreasing over the past 20 years). On the social side, North Macedonia has improved the standard of living for its citizens, reduced extreme poverty overall and undertaken important social protection reforms

To sustain the pace of building a socially cohesive society, North Macedonia must now tackle a set of important problems that remain. While improving, the employment rate of 43.4% in 2020 trails about 10 percentage points behind the OECD average (Figure 8.1 of Chapter 8). Many unemployed persons stay unemployed for long periods, leading to loss of skills and creating great pressure on the social protection system. North Macedonia has the highest market income inequality among all benchmark economies (Figure 8.6 of Chapter 8). This reflects the relatively high redistributive effects of the tax-benefit

system while also indicating that a large number of households have low market incomes. Inequalities between ethnic groups add to the complexity. Low participation in the formal labour market renders the mostly contribution-based social protection system unsustainable and under-dimensioned. Local governments should be on the frontline in addressing this challenge; most places, however, lack the capabilities in terms of organisation and funding.

Six priority actions have a great potential to foster social cohesion in North Macedonia and in the Western Balkans, with activation of vulnerable groups being a key priority for North Macedonia:

- Make active labour market policies more effective, particularly for vulnerable groups
- Create equal opportunities for vulnerable groups to participate in the labour market
- Strengthen women's role in society by supporting their integration into the labour market
- Create a more inclusive and fair social security system
- Strengthen targeting, equity and adequacy of social assistance for those most in need
- Deliver community-integrated social services

This chapter is divided into four sections, reflecting key areas of analysis and action. Sections 12.1 and 12.2 provide policy implications across the six policy actions through a prism of challenges specific to North Macedonia, cutting across two major policy areas – employment opportunities and social protection. Section 12.3 zooms in on the key policy priority selected and further developed by the peer-learning participants from North Macedonia: *Make active labour market policies more effective, especially for vulnerable groups*. Section 12.4 provides indicators agains which progress in implementing the various policy priorities can be assessed. This chapter is complemented by the regional chapter on social cohesion (Chapter 8), which highlights specific policy options for the six policy actions based on international practices that may be applied, albeit to different degrees, also to North Macedonia.

12.1. Supporting people in North Macedonia to find opportunities in the labour market

12.1.1. Make active labour market policies more effective, especially for vulnerable groups

High long-term unemployment and a lack of employment opportunities for people with no prior job experience calls for well-targeted active labour market policies (ALMPs). In 2019, about 67.7% of unemployed were long-term unemployed (Figure 8.2 of Chapter 8). Many young and many from vulnerable groups, including Roma and Egyptians, do not participate in employment, education or training, with many having no or very limited work experience (Figures 8.3 and 8.7 of Chapter 8). Poor labour market integration of vulnerable people can lead to loss of skills, long-term reliance on welfare assistance and emigration. The young face particularly dire situations when it comes to school-to-work transitions: about 45% of the young report being unemployed for at least four years after finishing school, which means they are very likely to work informally or migrate abroad (European Commission, 2021[1]). Current labour market deficiencies, such as a combination of unemployment, inactivity and lack of opportunities, causes the average male worker in North Macedonia to lose (on average) around 25 years of productive employment. For women, the figure is even higher at 30 years (World Bank, 2018[2]).

To boost the impact ALMPs in North Macedonia, it would be imperative to increase coverage among the most vulnerable groups. On average, only 8.1% of registered unemployed participate in ALMPs, although the share of unemployed youth participating is higher at 11.6% (Table 8.3 of Chapter 8). In addition to the low take up of ALMPs, most participating jobseekers are those with higher education: about 60% of unemployed registered with the Employment Service Agency (ESA) have tertiary education, compared with about 20% having only secondary education (World Bank, 2020[3]). Persons with secondary education account for close to 54% of all unemployed in North Macedonia in 2019 (World Bank/WIIW, 2021[4]). Low

registration and take up of ALMPs among people with low skills likely reflects barriers to access (such as lack of information) and a limited offer of services or the small number of locations (World Bank, 2020[3]). Coverage of ALMPs is particularly low among long-term unemployed, Roma and people with disabilities. Although most of the unemployed have been unemployed for long periods, the long-term unemployed account only for about 22% of all ALMPs participants. Roma and people with disabilities are highly affected by long-term unemployment spells yet account only for 3% of ALMP participants (OECD, 2021[5]).

Effective implementation of ALMPs requires adequate capacities of ESA and better collaboration with other stakeholders, including the private sector, social care services and non-governmental organisations (NGOs). The high staff-client ratio of 1:463 (in 2016) limits effective implementation of ALMPs in North Macedonia (European Commission, 2021[1]). Recent estimates (2016) show the effectiveness gap of 54% between average ESA offices and the best performing one, in terms of connecting people with jobs (World Bank, 2018[6]). Improving processes at bad-performing offices to breach the gap in effectiveness could increase job placement by 73% (Table 8.5 of Chapter 8). Likewise, inadequate collaboration with other stakeholders, especially with the private sector, means the ESA does not sufficiently leverage the existing stock of jobs to support job-seekers. Although the law in North Macedonia requires that all vacancies are advertised at the ESA, only about 8 344 vacancies were advertised in this way in 2019 (OECD, 2021[5]; CEIC, 2021[7]). This is very low considering there were about 101 700 job-seekers (OECD, 2021[5]).

12.1.2. Create equal opportunities for vulnerable groups to participate in the labour market

In its efforts to create a socially cohesive society for all, North Macedonia needs to create equal conditions for ethnic Albanians and Roma to participate in the labour market. Both groups together constitute about one-third of North Macedonia's population, yet they face weaker labour market outcomes than the rest of the population. Over 40% of the poorest quintile are estimated to belong to households of ethnic Albanian origins, with disposable incomes just two-thirds that of households of ethnic Macedonian origins (World Bank, 2018[2]).[1] In 2017, only about 22% of Roma aged 15-64 were employed, compared with 40% of non-Roma in neighbouring communities. This is a slight improvement in Roma employment since 2011 but a widening of the gap with non-Roma (Robayo-Abril and Millan, 2019[8]).

Ensuring better opportunities to obtain high quality education is one of the key levers for creating employment opportunities for ethnic Albanians and Roma. North Macedonia's performance in the OECD Programme for International Student Assessment (PISA) shows that ethnic Albanian students have lower results than their ethnic Macedonian peers (OECD, 2019[9]). Low education outcomes imply that current education system also fails to equip many people with job-ready skills, thus reducing their opportunities for labour market participation. Moreover, ethnic Albanian students attend separate schools with classes taught in Albanian; this leads to inefficiencies as the resources are duplicated and creates further segregation. About 33% of ethnic Roma have completed upper secondary school by age 25, compared to 87% of non-Roma youth, and virtually no Roma are enrolled in tertiary education (World Bank, 2018[2]).

Addressing discrimination and institutional barriers against ethnic Albanian and Roma also matters to access education and employment. Ethnic Albanians are often victims of hidden discrimination including by public officials, which affects their access to various public services. Roma children are also subject to discrimination in schools and often lack the necessary documentation to be able to attend school or receive the certificate of completion. This reflects low awareness of their guaranteed rights (Minority Rights Group, 2021[10]). Lack of necessary documentation among Roma also affects access to basic services. Discrimination against Roma is visible in healthcare. Roma women, for example, have worse health indicators (e.g. fewer prenatal visits, lower quality of care) and their children suffer from stunting more than the rest of the population (World Bank, 2018[2]).

12.1.3. Strengthen women's role in society by supporting their integration into the labour market

Creating better conditions for labour market participation among women can contribute to higher growth in North Macedonia and greater social cohesion. After Kosovo, North Macedonia has the highest gender gap in labour force participation in the Western Balkans. Women are more likely than men to work in low-income jobs and the estimated ratio of female-to-male earned income is 0.49, which represents the highest regional pay gap (USAID, 2019[11]; Nikoloski, 2019[12]).[2] Low labour market participation also creates gender gaps in the pension system, thus affecting women's well-being also in old age. Older women have lower pensions than men and lower access to the pension system: among those aged 65-79, the gender gap in pension income is 22.7% while the coverage gap is 22.1% (Gerovska Mitev, 2021[13]).

Better and affordable access to childcare is a key for high integration of women into the labour market. While North Macedonia shows improved preschool enrolment (from 22% in 2012 to 35% in 2017), it remains far behind the EU average of 95% (UNICEF, 2020[14]). Quality ratings for childcare services were the lowest of all economies surveyed in the European Quality of Life Survey in 2016 (Eurofund, 2018[15]). On average, it takes more than five years for a child to have a guaranteed place in early childhood education and care (ECEC) before compulsory primary education, which is relatively high against the EU average of 2.8 years (Figure 8.8 of Chapter 8). Low preschool enrolment affects women negatively but also has serious implications for future students, who do not acquire foundational skills relevant for future education.

Addressing institutional barriers, such as flexible options for part-time work, also matters for integrating women into the labour market. The lack of flexible work arrangements, such as part time-work, often undermines the participation of women in North Macedonia. Only about 5.3% of women work part-time, which is very low against averages in the EU (33.9%) and the OECD (36.1%) (Table 8.6 of Chapter 8). High minimum contributions for social security can discourage low-paid, part-time employment (Table 8.6 of Chapter 8).

Cultural norms also play a role in women's low participation in the labour market and should be addressed through awareness raising, both in the education sector and among the general public. About 41% of women (against just 1.3% of men) who are not in the labour market cite "personal and family obligations" as their primary reason for not looking for a job. In a recent survey, almost half (47%) of women surveyed believe they face discrimination in the labour market (Mojsoska-Blazevski, Petreski and Ayhan, 2017[16]).

12.2. Building effective, inclusive and financially sustainable social protection in North Macedonia

12.2.1. Create a more inclusive and fair social security system in North Macedonia

An inclusive and fair social security system calls for a combination of policies that encourage people to participate in formal employment and ensure a rapid transition from unemployment to work. Due to the lack of adequate and stable employment opportunities, many people – especially the young – do not contribute to unemployment insurance long enough to qualify for unemployment benefits. While decreasing, youth unemployment in North Macedonia in 2019 stood at 35% (World Bank/WIIW, 2021[4]). In addition, many long-term unemployed in North Macedonia have lost their unemployment benefit entitlements, with an accompanying risk of exiting the labour market altogether, making future work less likely (Section 12.1.1). Likewise, many persons work informally and are very likely not contributing to the social security system, staying without unemployment benefit entitlements and pension security. Income is estimated to be partially or completely undeclared by about 44% of employees (European Commission,

2019[17]). Almost 74% of individuals engaging in work that is additional to their primary source of employment do so without a formal contract (European Commission, 2021[1]). As social security contributions finance more than half of social protection spending (54.5% in 2017), low coverage is further jeopardising the financial sustainability of the system (Gerovska Mitev, 2019[18]).

Building on the 2009 reform, it would be important to consider further reduction of high social security contributions as a means to reduce the tax burden for many, especially low-wage earners, as current rates encourage them to work informally. In North Macedonia, social contribution rates represent about 20.5% of monthly salary (ILO, 2021[19]). Furthermore, the progressivity of personal income tax[3] is very limited (Figure 8.11 in Chapter 8); this implies a relatively high tax wedge, which particularly affects low-wage workers and tends to encourage informal employment practices. The 2009 gross wage reform made an important step in reducing social security contributions, leading to positive initial employment effects (Mojsoska-Blazevski, 2012[20]).

Considering low labour market participation and rapid ageing in North Macedonia, addressing social security coverage can improve the financing of old-age pensions, an integral part of any social security system and a tool to foster social cohesion. More than 60% of social protection spending, or 9.3% of GDP, goes to the mixed pension system. This represents an increase of 1.1 percentage points since 2008 due to a range of policy measures including abolishment of formal indexation mechanisms in favour of *ad hoc* supplementary pension increases (implemented between 2014 and 2017) (Gerovska Mitev, 2019[18]). Recent reforms maintained a "pay-as-you-go" basic pension, but introduced a fully funded second pillar and price indexation of pensions in 2019. These changes helped to stabilise financial flows in the pension fund but were recently relaxed to allow for larger increases when wage growth meets certain criteria. In view of low labour market participation and population ageing, further efforts are needed to ensure both the long-term sustainability of the social protection system and adequate protection for people.

12.2.2. Strengthen targeting, equity and adequacy of social assistance for those most in need

North Macedonia has made great progress in streamlining social assistance schemes and endeavouring to link them with the labour market. Among several social assistance schemes offered in North Macedonia, the guaranteed minimum assistance (GMA) is its most important means-tested scheme (Table 8.A.4. of Chapter 8). The scheme was introduced in 2019 by a new Law on Social Protection (World Bank, 2020[3]). Eligible for the GMA are households that do not own property and had an income level in the past three months below the guaranteed minimum (the base is MKD 4 000 or EUR 65 per month for one person, increasing according to an equivalence scale for each other adult family member and children) (World Bank, 2020[3]). The GMA can be received together with most other social assistance supplements and allowances (Table 8.A.4. of Chapter 8).

Despite the progress achieved, it is important to ensure high impact of social assistance through better targeting. Although the GMA is now more generous and covers more people than previous schemes, coverage is still very low. In 2020, the GMA covered 1.5% of the population, which is comparatively low given that 21.6% of people in North Macedonia were at risk of poverty in 2019 (Barca et al., 2020[21]).

The recent reform is an important step in improving activation and labour market integration of social assistance beneficiaries. Better labour market integration was one reason to reform social assistance in 2019. It sets out a mutual obligations framework with the objective to incentivise recipients to register as unemployed and to meet obligations set out in their individual employment plans for inclusion in active labour market measures. Failure to respect these obligations can result in a withdrawal of the financial support (OECD, 2021[5]). However, most GMA beneficiaries are persons with low skills and who lack labour market experience, making activation through conditionality challenging (World Bank, 2020[3]).

In collaboration with the European Union, the Employment Service Agency (ESA) is currently implementing the project "Labour market activation of vulnerable groups" with a duration of 36 months. The aim is to reduce long-term unemployment and dependence on the GMA by including GMA beneficiaries in specialised skills development programmes and services, including counselling and mentoring support. Various programmes are expected to cover about 4 400 beneficiaries. While this as an important initiative, it would be important to scale up and systematise the approach, especially considering that about 30 708 adults were GMA beneficiaries in 2019 (Table 8.A.4. of Chapter 8).

12.2.3. Deliver community integrated social services

Establishing community-integrated social services is one of the key policy priorities that emerged from the peer-learning workshops. As indicated in the regional chapter on social cohesion (Chapter 8), community-integrated social services encompass a range of approaches and methods for achieving greater co-ordination and effectiveness between different services, such as elderly care, healthcare, education and others, with the objective to achieve improved outcomes for services users.[4] During the OECD peer-learning workshop, participants stressed the importance of community-integrated services as a key lever to strengthen social protection, deliver social care services and reduce long-term dependency on social welfare through better labour market integration.

To create an integrated approach, it would be important to provide adequate capacities to local governments, which should be on the frontline of delivering community integrated social services. Local government generally have a good knowledge of challenges and needs of vulnerable groups. Although the Law on Social Protection has strengthened the powers of the social services as part of the decentralisation process (Table 8.7 of Chapter 8), municipalities in North Macedonia still lack adequate capacities to deliver quality social services (European Commission, 2021[1]). Local government revenues amount to 15.7% of total public revenues in 2019, which is relatively low compared to the OECD average of 42.4% of total public revenues (Figure 8.14 of Chapter 8).

More collaborative efforts are needed to create a community-integrated social services in North Macedonia. In recent years, as part of efforts to create an integrated approach for inclusion of social welfare beneficiaries, co-operation among key local stakeholder has improved. As yet, it remains insufficiently implemented (European Commission, 2021[1]). Since 2019, Centres for Social Work and Employment Centres have co-operated to put together individual employment plans to map out beneficiaries' participation in active employment measures and job seeking. Staff in the two centres communicate regularly and meet as needed, at least once per month. The process has two major limitations. First, co-ordination was lacking between relevant stakeholders at the local level, as well as with institutions at the national level. Second, there is an evident lack of social services provision by CSOs, which usually depend on funds provided by external donors (OECD, 2021[5]).

The implementation of the Census of Population and Housing in 2021 is a key ingredient to facilitate evidence-based policy making, including in planning and co-ordinating social service provision. The Initial Assessment volume of this review identified the lack of a population census as a major constraint for inclusive and accurate policy design in North Macedonia (OECD, 2021[22]). Up-to-date and accurate census information will be key to design and size policy interventions and to improve other data gathering exercises. The results of the 2021 census will also have implications for the public administration (which should grant a minimum representation to minority ethnic groups).[5]

12.3. Action plan for improving labour market integration of vulnerable groups through ALMPs

Reducing long-term unemployment and the number of persons on welfare benefits through faster labour market integration was a key peer-learning policy priority of North Macedonia. Long-term

unemployment ranks among the key issues affecting social cohesion in North Macedonia and across the region. Although North Macedonia is slightly below the regional average, the 68% share of long-term unemployed is still significant (Section 12.1.1). Long-term unemployment can lead to loss of skills, self-confidence and motivation, and translate into acute social and health problems that sap a person's ability to work and to look for a job (OECD, 2014[23]). Likewise, many long-term unemployed, as well as other vulnerable groups, are recipients of social welfare benefits: currently, more than 30 000 people are GMA recipients. As this also creates significant financial pressures on the social security system, faster labour market integration is necessary.

Achieving the above priority will require provision of quality personalised services, interventions to increase skills and capabilities of jobseekers, increased access to available jobs and broad-based partnerships with relevant stakeholders. Several key policy options are proposed, based on suggestions from the peer-learning participants and the OECD (Table 12.1):

- ***Piloting new services and measures to enhance employment outcomes for hard-to-employ persons.*** This includes counselling and motivation services, such as psychological and mentorship support. In parallel, it is important to increase employability of job-seekers through training in VET centres and on-the-job trainings and, when necessary, providing job subsidies to employers. Specific measures include:
  - Psychological support, both intensive and continuous. Intensive individual and group psychological would support GMA recipients before engaging them in an active employment measure. Continuous group psychological support would support GMA beneficiaries while they participate in active employment measures.
  - Mentorship support provides services in line with the needs of GMA recipients through face-to-face meetings, phone conversations, and other means. It typically lasts through the duration of ALMP implementation and carries on once a person is in employment, although the intensity of support is reduced at this point.
  - Training in vocational occupations. This will be implemented in collaboration with training providers who have experience with continuous adult education. To improve the effectiveness of trainings, occupation needs can be identified by pooling various national sources (annual Skills Needs Survey, research carried out by employers' organisations and chambers of commerce, and information on the local level provided by employment services centres and municipalities).
  - On-the-job trainings. This includes training for skills corresponding to employers' needs in order to improve employment perspectives. During such trainings, employers would receive funds for mentoring and material costs. Employers would be obliged to provide regular updates to the ESA and to employ at least 50% of participants for a period of at least 6 months.
  - Providing employment subsidies when necessary. This would include financial support to employers (i.e. 100% of minimum net salary for period of 12 months).
- ***Delivering targeted employment activation services and income support in a co-ordinated manner.*** This requires strengthening capacity in employment centres and centres for social work, especially at the local level, as well as adjustments to existing processes and to the management and information systems, to ensure their interoperability.
- ***Building partnerships with public and private entities, including businesses, the Ministry of Labour and Social Policy, the ESA, VET institutions, chambers of commerce, employers' organisations and NGOs.*** Strong involvement of NGOs is particularly important to reach the most vulnerable. This will require identifying which NGOs should be involved in the process, setting up a network of NGOs and finding solutions for financing NGOs.
- ***Leverage existing jobs by increasing collaboration between employers and the ESA.*** Providing quality services to the private sector may improve the reputation of the ESA as a reliable

service provider for employers and also increase the availability of vacancies through job placement. Having dedicated employer relationship staff to manage intake and registration of vacancies, inform employers about available ALMPs, and provide targeted support for SMEs that lack human resource departments and other activities could be further considered.

- ***To ensure faster integration of those who have recently lost employment and are at risk of becoming long-term unemployed, it would be important to introduce statistical profiling.*** Statistical profiling uses statistical models to predict the likelihood of job-seekers becoming long-term unemployed (Desiere, Langenbucher and Struyven, 2019[24]).

Table 12.1. Improve labour market integration of vulnerable groups through active labour market policies

Policy actions	Monitoring indicators
• Piloting new services and measures in order to enhance the employment outcomes for hard-to-employ persons • Delivering targeted employment activation services and income support in a co-ordinated manner • Building partnerships/co-operation with public and private entities, including businesses,, the Ministry of Labour and Social Policy, the ESA, VET institutions, chambers of commerce, employers' organisations and NGOs • Leverage existing jobs by increasing collaboration between employers and the ESA • Introduce statistical profiling	• Number of social welfare (GMA) recipients • Number of social welfare recipients supported with psychological and mentoring services • Number of social welfare recipients who were trained with skills demanded in the labour market and in-work trainings • Number of social welfare recipients who were employed through subsidised employment • % / number of social welfare recipients who are employed 6-12 months after the intervention • % / number of participants in the programmes having upgraded their employment 6-12 months after the intervention • Number of mentoring / counselling programme providers

Source: OECD peer-learning workshops.

12.4. Indicators to monitor the overall policy progress in North Macedonia

To monitor the policy progress in improving labour market integration of vulnerable groups and in addressing other policy priorities in North Macedonia, the OECD suggests a set of key indicators. These are set out in Table 12.2, which includes values for North Macedonia and benchmark countries (either the OECD or the EU average, based on data availability).

Table 12.2. Indicators to monitor progress in implementing policy in North Macedonia

2019 unless otherwise specified

Indicators	North Macedonia	Benchmark value
Long-term unemployment (% of total unemployment)	67.7	25.8
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	19.8*	15.5*
Labour force participation rate (gender gap)	21.6*	16.5*
In-work at-risk-of-poverty rate (%)	8.5	9.2
At-risk-of-poverty rate (%)	21.6	16.2*
ALMP participants (% of registered unemployed)	8.1**	71.4**
Caseloads (number of jobseekers) of public employment service (PES) staff	463****	139****
Unemployed persons receiving unemployment benefits (% of all unemployed)	17.5*	45.7*
Persons above retirement age receiving a pension (% of persons above retirement age)	68.6*	95.8*
Local government revenue (% of total public revenue)	15.7	42.4

Note: *2020, **2018 ***2017, ****2016. The benchmark valuesare based on the current OECD averages, with the following exceptions: *In-work at-risk-of-poverty rate (%)* for which the benchmark value is based on the EU average; *Caseloads (number of jobseekers) of public employment service (PES) staff* and *Persons above retirement age receiving a pension (% of persons above retirement age)*, for which the target is based on Slovenia; and *ALMP participants (% of registered unemployed)*, for which the benchmark value is based on Hungary.
Source: World Bank (2021[25]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ILO (2021[26]), *ILOStat* (database), https://ilostat.ilo.org/data/; CPESSEC (2019[27]), Centre of Public Employment Services of Southeast European Countries, https://www.docdroid.net/qvBC3jr/statisticki-bilten-br-9-cpessec-finalno-converted-pdf; RCC (2021[28]) Regional Cooperation Council, https://www.rcc.int/download/docs/Study-on-Youth-Employment-in-the%20Western-Balkans-08072021.pdf/7464a4c82ee558440dfbea2e23028483.pdf; Jahja Lubishtani (2018[29]), The Effectiveness of Active Labour Market Policies in Reducing Unemployment in Transition Economies, https://core.ac.uk/download/pdf/226765796.pdf; World Bank (2018[6]), Functional Reviews of the Public Employment Services in the Western Balkans, https://openknowledge.worldbank.org/bitstream/handle/10986/35656/Functional-Reviews-of-the-Public-Employment-Services-in-the-Western-Balkans-Overview.pdf?sequence=1&isAllowed=y; European Commission (2016[30]), Assessment Report on PES Capacity, https://ec.europa.eu/social/BlobServlet?docId=16967&langId=en; OECD (2021[5]), *Competitiveness in South East Europe 2021: A Policy Outlook*, https://doi.org/10.1787/dcbc2ea9-en; World Bank/WIIW (2021[4]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html.

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Notes

[1] Estimations are based on the nationally representative 2017 Quality of Life population survey carried out by the Finance Think research institute.

[2] Women have particularly low salaries in textile and wearing apparel sectors, which together accounted for 5.2% of total employment and employed 85.2% of women in 2019 (State Statistical Office, 2022[31]). While the average gross salary in February 2020 was EUR 659 per month, in the textile sector, it was EUR 534, and in the wearing apparel sector, it was EUR 423 (Invest North Macedonia, 2021[33]). Considering the high share of women in both sectors, low wages are affecting many women.

[3] Progressivity of labour taxation is calculated as the percentage point increase of the tax wedge between workers earning 67% of the average wage and workers earning 167% of the average wage (World Bank/WIIW, 2019[34]).

[4] Definition from the Council of Europe (CoE, 2007[32]).

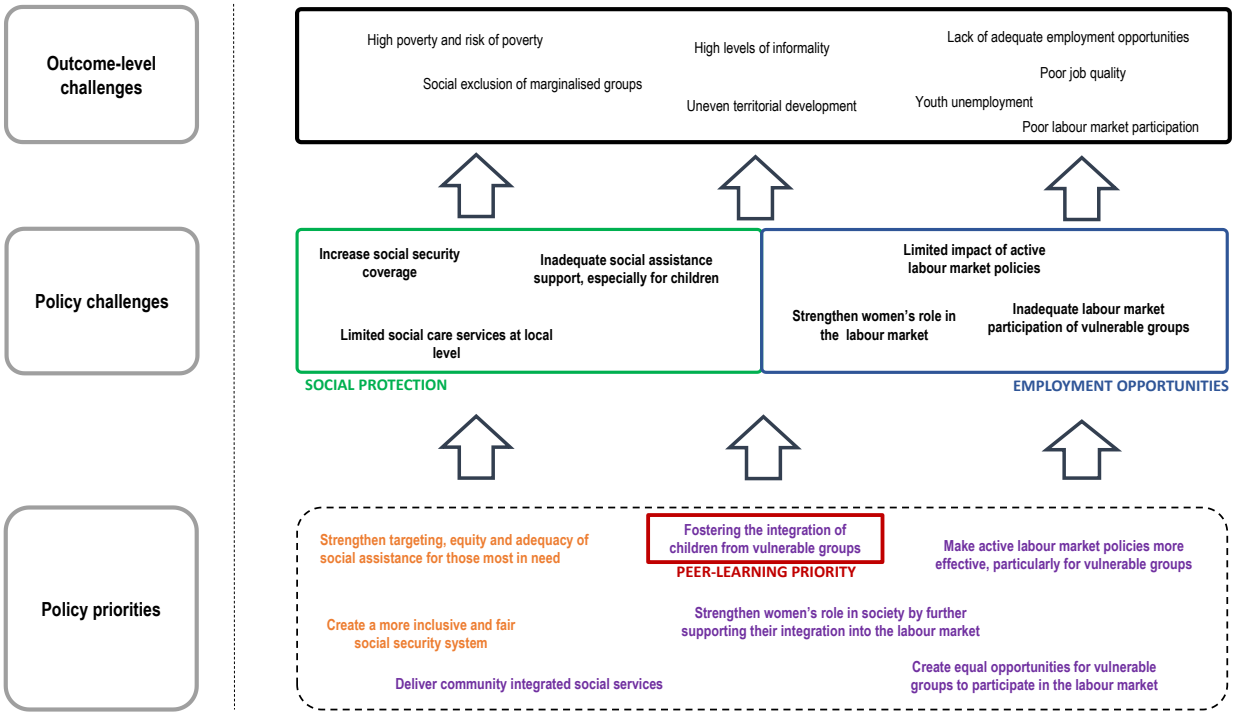
[5] The results for the 2021 Census are expected to be published at the end of March 2022, after the editorial closing date for this publication.

13 Fostering social cohesion in Serbia

This chapter provides key policy priorities and suggestions for actions to foster social cohesion in Serbia. The labour market has recovered from the crises of the past decade, which presents opportunities for inclusive growth. Labour market and social protection policies, together, are key tools to address the remaining challenges of high long-term unemployment, low labour market participation among citizens from vulnerable groups and low coverage of social safety nets. Active labour market policies (ALMPs) should play a greater role in supporting youth and persons from vulnerable backgrounds. To that end, ALMPs require adequate funding, increased capacities in the National Employment Service, and greater co-ordination across public and private actors. Fostering integration of citizens from vulnerable groups is a priority objective for Serbia and can be pursued through well-targeted and accessible social assistance support and mechanisms to improve children's education outcomes in a targeted manner. Ongoing efforts to sustain the integration and coherence of social services are an important step towards more effective provision of the services citizens need to thrive.

Key elements of social cohesion ranked very high in Serbia in the Initial Assessment of this Multi-dimensional Review of the Western Balkans – decentralisation, improved health services, quality free time and leisure, countering demographic decline and decent jobs. A socially cohesive society is a society that creates the ability and willingness of its members to undertake collective action for the improvement of societal well-being of all its members. Building on the Initial Assessment, the "From Analysis to Action" phase of the project provides suggestions to foster social cohesion in Serbia and in other economies of the Western Balkans. The peer-learning workshops on social cohesion (Box 8.1 of Chapter 8) were an integral part of the project's second phase, serving three complementary processes: identification of problems hampering social cohesion, identification of policy key policy challenges, and putting for forward key policy priorities for Serbia and for the region (Figure 13.1).

Figure 13.1. Achieving social cohesion in Serbia and in the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops..

Serbia has achieved significant success across various dimensions of social cohesion over the last decades. In past decades, Serbia managed to ensure more jobs for its population. Since the global financial crisis of 2008/09, labour market performance has improved constantly, with employement-to-population rates rising from 35.5% in 2012 to 49.1% in 2020 (World Bank, 2021[1]). Employment rates in 2020 were close to OECD and EU averages. In turn, positive labour market developments led to improved employment outcomes for women, which is evident in their increased labour market participation. Since 2014, poverty has been steadily decreasing. Serbia has also been performing well on various well-being indicators. Its citizens feel comparatively safe and are exposed to comparatively few homicides in relation to the level of gross domestic product (GDP) (OECD, 2021[2]).

To sustain the pace of building a socially cohesive society, Serbia must now tackle a set of important challenge that remain. While the pattern of growth since 2012 has created good-quality jobs in numbers, some gaps must be addressed: women, the young, some ethnic minorities and those living in lagging regions face significant – and often overlapping – deprivations. Also, a relatively high share of

people who have been long-term unemployed (59.7% in 2019) risk exiting the labour market altogether, making future work less likely (Vidovic et al., 2020[3]; World Bank/WIIW, 2021[4]). Family socio-economic background plays a strong role in whether students go to general or vocational programmes; those from more favourable backgrounds are more likely to attend general schools and continue their studies later. Inequalities among Serbia's four major regions persist along various aspects of well-being. The southern regions have significant municipal pockets of poverty: differences range from 4.8% in Novi Beograd in Belgrade Region to 66.1% in Tutin in Šumadija and Western Serbia (SORS/World Bank, 2016[5]). Pension coverage is high: 95.9% of men and 85.6% of women aged 65 and over received a pension payment in 2019. The adequacy of pensions, however, is low (ESPN, 2017[6]; Pension and Disability Insurance Fund for the Republic of Serbia, 2019[7]), hampering social cohesion among the elderly.

Seven priority actions have a great potential to foster social cohesion in Serbia, with fostering the integration of children from vulnerable groups being the key priority:

- Make active labour market policies more effective, particularly for vulnerable groups
- Create equal opportunities for vulnerable groups to participate in the labour market
- Strengthen women's role in society by further supporting their integration into the labour market
- Strengthen targeting, equity and adequacy of social assistance for those most in need
- Foster integration of children from vulnerable groups (peer-learning priority)
- Create a more inclusive and fair social security system
- Deliver community integrated social care services

This chapter is divided into three sections. Sections 13.1 and 13.1 provide policy implications across the seven policy actions through a prism of challenges specific to Serbia. Section 13.3 provides indicators against which policy progress in implementing all the policy priorities can be measured. This chapter is complemented by the regional chapter on social cohesion (Chapter 8), which provides more specific policy options based on international practices that may be applied, albeit to different degrees, for policy priorities in Serbia.

13.1. Supporting people in Serbia to find opportunities in the labour market

13.1.1. Make active labour market policies more effective, especially for vulnerable groups

To increase the impact of active labour market policies (ALMPs) in Serbia, it would be imperative to increase their coverage, especially for the long-term unemployed, youth, and Roma. In 2018, only 5.3% of registered unemployed participated in ALMPs (Table 8.3 of Chapter 8). The long-term unemployed, who have lost their unemployed benefits, have little incentive to participate in ALMPs; in fact, their participation in ALMPs stood at only about 1%.[1] The share of unemployed youth participating in ALMPs was higher (9.7%) (Table 8.3 of Chapter 8), although it has been decreasing in recent years (Aleksić, Arandarenko and Ognjanov, 2020[8]). Considering the high share of young not participating in employment, education or training (Figure 8.3 of Chapter 8), scope exists to increase their ALMP participation. The school-to-work transition is reported to take about two years on average, and even longer for persons with low and medium educational attainment (ETF, 2021[9]).[2] Participation in ALMPs is also low among Roma, although it has been increasing – from 18.7% 2011 to in 25.9% in 2019 (Aleksić, Arandarenko and Ognjanov, 2020[8]). For the most part, they engaged in programmes for active job-search training and three-year functional adult primary education (Government of the Republic of Serbia, 2020[10]). Poor labour market integration of these groups can lead to loss of skills, long-term reliance on welfare assistance and emigration, further fostering dynamics of social exclusion.

Serbia should continue building on its efforts to integrate young people in the labour market. The Youth Service Package, launched in 2013, has become a key ALMP: it aims to intensify co-operation between the National Employment Service (NES) counsellors and unemployed youth. Despite the emergence of certain positive aspects,[3] subsequent evaluation showed declining participation of youth in ALMPs even after the programme was introduced. Notably, interviews are lacking that would ensure collection of all relevant information needed for a realistic employability assessment (Sekulović et al., 2017[11]). Another initiative, the My First Salary programme, aims to provide opportunities for the young to gain practical experience through 9-month apprenticeships in which the state subsidises wages. Beneficiaries are graduates with secondary and higher education degrees. In 2020, the programme had 8 000 participants (Government of the Republic of Serbia, 2021[12]). To further promote youth employment, Serbia is planning a Youth Guarantee scheme, with a pilot currently under preparation (European Commision, 2021[13]).

Scope exists to increase participation of recipients of financial social assistance (FSA) especially by intensifying collaboration between the NES and Centres for Social Work at the local level. A mutual obligation framework for recipients of unemployment benefits, and recently also for FSA beneficiaries, is in place. Based on the mutual obligation framework beneficiaries able to work are referred to the NES by an electronic exchange system of information on jobseekers, and an obligation for an interview within ten days and for participation in ALMPs, as well as other services offered by the NES (OECD, 2021[14]). To date, implementation of the framework seems weak: in 2019, 11 565 FSA beneficiaries participated in ALMPs or NES services, only about 4.5% of total recipients (OECD, 2021[14]). Serbia has established formal agreements between the NES and the Centres for Social Work at the central level; at the local level, only some municipalities have such agreements in place (Scoppetta, Danaj and Reitzer, 2017[15]).

Effective implementation of ALMPs requires adequate capacities at the NES. With 436 job seekers per counsellor, the workload of the NES limits the effectiveness of ALMPs. While this is among the lowest client-to-staff ratio in the region (Table 8.4 of Chapter 8), it remains high in comparison to international benchmarks such as Slovenia with a ratio of 137:1. Ultimately, it affects the ability of the NES to connect people with jobs. Some recent estimates show that despite about 2.7 formal jobs available locally per unemployed person, the effectiveness gap between the average of NES offices and the best performing one, in terms of connecting people with jobs, stood at 22% in 2016, hampering NES ability to connect people effectively with jobs. Closing this gap through improvements could increase job placements by 20% (Table 8.5. of Chapter 8) (World Bank, 2018[16]).

Strengthening implementation of ALMPs and other strategic priorities will require more funding. In early 2021, Serbia adopted a new National Employment Strategy for 2021-2026, and an accompanying action plan 2021-2023 (European Commision, 2021[13]). During the period of the previous strategy (2011-2020), the budget goal of 0.5% of GDP in 2020 for ALMPs was not reached. In fact, spending remained at just 0.1% of GDP, one of the lowest levels in the region. Serbia aims to increase its budget for ALMPs by 40% in 2021, compared with 2020 (European Commission, 2020[17]).

13.1.2. Create equal opportunities for vulnerable groups to participate in the labour market

To boost social cohesion, Serbia needs to create equal conditions for all for labour market participation, especially for minorities such as Roma and people with disabilities. Based on the 2011 census, Roma account for about 2.05% of Serbia's population (CRD, 2017[18]). Due to possible underreporting, some unofficial estimates indicate it could be up to 8.2%[4] (European Commission, 2014[19]). Roma still participate only marginally in the labour market and their labour market outcomes are significantly worse than those of other populations. In 2017, only 34% of Roma participated in the labour market compared with 52% of their non-Roma neighbours and 66% of the general population (Robayo-

Abril and Millan, 2019[20]). Similarly, people with disabilities also face weak employment prospects in Serbia. While it is estimated that 10-15% of the population are people with disabilities (Regional Cooperation Council, 2018[21]), only 9% of persons with disabilities are employed (Government of the Republic of Serbia, 2021[22]). The employment rate for women with disabilities is even lower, at only 4% (UN Women, 2019[23]). One-third of people with disabilities who are formally employed report a workplace adjusted to their needs (Regional Cooperation Council, 2018[21]).

Ensuring better opportunities to obtain high quality education is one of the key levers for creating employment opportunities for Roma and people with disabilities. Roma communities lag behind the rest of the Serbian population when it comes to access to education (World Bank, 2016[24]). Based on some recent estimates, only 37% of Roma had completed compulsory education (UNICEF, 2015[25]). Beyond compulsory education, the gap is even bigger: completion of upper secondary school is about 19%, compared with 93% of non-Roma children (Robayo-Abril and Millan, 2019[20]). Key barriers include distance to schools and low interest among Roma parents to enrol their children in school (see the Education and Competencies chapter on Serbia – Chapter 7). Likewise, poor labour market outcomes for people with disabilities can be linked to limited access to education and attainment: about 50% of this group have attended only primary education (Regional Cooperation Council, 2018[21]).

Addressing discrimination and stereotypes, especially against Roma, is another important lever for improving participation of vulnerable groups. Both Roma and people with disabilities suffer from stereotypes and other forms of marginalisation. Roma, in particular, are subject to discrimination and exclusion from public life. In 2014, 40% of 124 discrimination complaints submitted to the Commissioner for Equality were against Roma. Roma are also disproportionally underrepresented in public administration. Based on the official estimate Roma constitute about 2% of the population, but within the state institutions Roma employees account for only 0.05% of staff (8 persons) (CRD, 2017[18]). Discrimination is also evident in the private sector, where Roma face difficulties finding employment. Although Roma were an explicit target group of the subsidised employment scheme, only 2.8% of job placements were concluded with Roma (50 persons in total) (CRD, 2017[18]). Raising awareness and showcasing - in both public institutions and among the general public – how integrating Roma and people with disabilities can boost social cohesion should be an integral part of policy efforts in Serbia.

Serbia is making efforts to improve educational outcomes for the Roma and people with disabilities. Serbia's Strategy of Social Inclusion of Roma Men and Women in Republic of Serbia 2016-2020 aims to combat discrimination and poverty of Roma (Tulumovic, 2018[26]). In parallel, the National Employment Strategy 2011-2020 recognises Roma as a vulnerable group for labour market integration. The employment strategy set out the objectives of integrating more Roma men and women in private and public employment, combatting the discrimination they face on the labour market, and formalising the work of those Roma currently working in the informal economy (Ministry of Labour, Employment, Veteran and Social Affairs, 2020[27]). The corresponding action plan expired in 2018, without being fully implemented. It included measures such as formalising work by integrating Roma as individual collectors of secondary raw materials in the waste management system at the local government level. To date, however, specific measures have not delivered any significant results. Preparation of a new action plan has been delayed (OECD, 2021[14]).

Better inclusion of people with disabilities is an integral part of Serbia's key strategic frameworks. Key actions in Serbia's new National Employment Strategy 2021-2026 include targeted ALMPs, establishing a new database to support closer monitoring of employment outcomes, more personalised counselling by NES, and offering incentives and advisory measures for employers to facilitate placement. Likewise, the Strategy for the Development of Education 2021-2030 mentions (among other priorities) aligning inclusive education to international standards and closer monitoring of outcomes, as well as improving teacher competencies to work with people with disabilities. The same strategy aims to ensure equal opportunities for Roma (Government of the Republic of Serbia, 2021[22]).

13.1.3. Further strengthen women's role in society by supporting their integration into the labour market

Ensuring greater labour market participation of women can contribute toward higher economic growth in Serbia and greater social cohesion. Although women's employment outcomes in Serbia do not lag significantly behind international benchmarks (Figure 8.4 of Chapter 8), women are still less likely than men to be engaged in paid work – with a gender employment gap of 15 percentage points (World Bank/WIIW, 2021[4]). On average, men also earn about 11% higher wages than women. The gender pay gap (in monthly average gross earnings) is wider for persons with university degree (about 20%) (SORS, 2018[28]). Reducing potential for discrimination would an important first step. The approval – in May 2021 – of the new Law on Gender Equality, has endowed Serbian law with more explicit mandates for equal remuneration for work of equal value, and specifically defined and prohibited discrimination based on sex, sexual characteristics, and gender (World Bank, 2019[29]; Krstic, 2021[30]).

Increasing the limited supply of childcare facilities and improving options for paternity leave would be important steps in creating conditions for equal labour market participation of men and women. Family care responsibilities was reported as a primary reason for labour market inactivity for about 7% of women in Serbia (UNECE, 2021[31]). On average, it takes 4.6 years for a child to have a guaranteed place in early childhood education and care (ECEC) (before compulsory primary education), which is relatively high against the EU average of 2.8 years (Figure 8.8 of Chapter 8). In 2020 childcare coverage stood at 42.2% (6 months to 3 years) and 65.3% (3 to 5 years old). However, it is substantially lower for vulnerable groups such as Roma children (UNECE, 2021[31]). To date, fathers do not have an equal right to take parental leave (World Bank, 2019[29]).

Addressing institutional barriers to flexible options and part-time work also matters for women's labour force participation. Women's participation in the labour market is often affected by the lack of flexible work arrangements, such as part time-work. In Serbia, only about 13% of women work part-time, which is higher than in most economies in the Western Balkans but very low compared to averages in the EU (33.9%) and the OECD (36.1%). The relatively high minimum base for social security contributions can also discourage low-paid, part-time employment (Table 8.6 of Chapter 8).

Cultural norms continue to play a role in the gender gap in labour market participation and should be addressed through awareness raising. Serbian women spend more than twice as much time as men on unpaid household chores (UNECE, 2021[31]), which is close to the OECD average (OECD, 2019[32]). In a survey in 2017, 40% of Serbian women reported believing that women should be responsible for household chores, even if the husband is not working. More than half (57%) of Serbians favoured a traditional family arrangement in which the man works and the woman takes care of the family (EBRD, 2017[33]).

13.2. Building effective, inclusive and financially sustainable social protection in Serbia

13.2.1. Strengthen targeting, equity and adequacy of social assistance for those most in need

To ensure social cohesion, Serbia could strengthen coverage of its social main assistance schemes, especially by improving targeting. The two main programmes of social assistance in Serbia are the FSA and child allowance (Table 8.A.5 of Chapter 8). The FSA covers about 3.7% of population, which is low given that the rate of people in the at-risk-of-poverty threshold was 25.7% in 2017. In 2016, the FSA reached only 10.5% of the poorest income quintile. Recent estimates suggest that under conditions of perfect targeting, FSA coverage could almost double – from the current 261 614 recipients

to 492 306 of the current poor (Government of the Republic of Serbia, 2018[34]). Similarly, child allowances do not reach the full cohort of poor children: only about 45% of children in the at-risk-of-poverty threshold, received child allowance (UNICEF, 2019[35]). Income ceilings, a land ownership ceiling[5] and documentation requirements[6] are identified as criteria that are exclusionary and leave a large proportion of persons unsupported by FSA (Government of the Republic of Serbia, 2018[34]).

Serbia should also reassess the adequacy of its FSA and child allowance. Compared with other economies in the region, Serbia spends more on means-tested benefits, even though these remain limited in relation to the EU average (Figure 8.9 of Chapter 8). The FSA payment varies depending on household size. For a four-person household, it stands 52.3% of the at-risk-of-poverty threshold. The child allowance is awarded in equal amounts to the first four children (not older than 19 years and conditional on regular school attendance). The monthly payment was EUR 23 in 2017, with higher amounts for children in single-parent families (30% more) and children with disabilities (50% more). Even though child allowances are intended to alleviate poverty, the amount of the benefit makes up only 14% of the at-risk-of-poverty threshold (Table 8.A.5 of Chapter 8). Persons that take part in public works, which is one of the ALMPs, normally lose their entitlements to FSA. For the cases where remuneration from public works does not suffice, such an administrative barrier should be reconsidered, which could also encourage participation.

13.2.2. Foster the integration of children from vulnerable groups (peer-learning priority)

Fostering the integration of children from vulnerable groups, especially by introducing scholarship for vulnerable children, was selected as the key peer-learning priority by peer-learning participants in Serbia (Box 13.1). While participation in compulsory education is universal in Serbia, disadvantaged children are less likely to participate at the pre-primary and upper secondary levels (Maghnouj et al., 2019[36]). At the pre-primary level in 2014, a difference of 73 percentage points was reported in enrolment rates between children from the poorest families and the wealthier families. In upper secondary education, almost all students (97%) from the richest quintile enrol while the share among disadvantaged students drops to 74% (SORS/UNICEF, 2014[37]). A difference of 73 percentage points in PISA reading scores between students from disadvantaged and wealthier families shows much lower learning outcomes of disadvantaged students. While this is lower than the OECD average, it is higher than some of the regional benchmarks, such as Croatia (63) and Montenegro (55) (Maghnouj et al., 2019[36]).

Supporting vulnerable students at the early stages of education (primary and lower secondary), could improve education outcomes and increase possibilities for labour market integration. Lack of funding for poor students can affect their performance at the primary and lower secondary level, decrease their chances to obtain merit-based scholarships at the upper-secondary level and affect their decisions to pursue further studies. Most scholarships at the upper-secondary level are awarded primarily based on performance, often supporting students who would be able to attend higher education even in the absence of such scholarships (Živadinović, 2017[38]). In the absence of support at early education levels, and facing relatively high costs at higher education levels,[7] poorer students at the end of lower-secondary level tend to enrol into VET, aiming to join the labour market more quickly (Maghnouj et al., 2020[39]). This also can lower education outcomes at the VET level as it reduces the motivation of those students who would have preferred to attend general schools. The peer-learning participants mentioned that scholarships could be awarded as financial transfers or vouchers to be used for educational materials.

International evidence highlights the importance of solid design of scholarships to avoid excluding students who are likely to drop out before obtaining a scholarship, and to ensure good education outcomes by linking scholarships to performance. Evaluation of scholarships for vulnerable children in various countries shows that scholarships or grants at primary and lower-secondary levels can improve school enrolment and attendance, although the impact on performance was not significant[8] (Filmer and Shady, 2009[40]; Behrman, Parker and Todd, 2005[41]). A seven-year randomised evaluation from Kenya suggests education subsidies reduce dropout, pregnancy and marriage of adolescent girls (Duflo, Dupas

and Kremer, 2015[42]). In Cambodia (Filmer and Shady, 2009[40]), as some scholarships were awarded at the lower-secondary level, some children were likely to have dropped out of school before getting an opportunity to obtain them.

Box 13.1. Foster integration of vulnerable children by introducing scholarships at early levels of education (peer-learning priority)

To introduce scholarship for early levels of education for children from vulnerable groups in Serbia, participants of the peer-learning workshop suggested several actions to complement current policy efforts. Seven suggested actions reflect the diverse expertise of the participants and their engagement to collaborate to find solutions. Participants represented the following entities: the Ministry of Education, Science and Technological Development; the Ministry of European Integration; the Ministry of Labour, Employment, Veterans and Social Affairs; the Centre for Democracy Foundation; the Standing Conference of Towns and Municipalities; and the University of Belgrade. The seven actions suggested are as follows:

- Establish a platform for exchange of information with teachers, school staff, parents, psycho-social development experts, non-governmental organisations (NGOs) and private sector representatives to deliberate the design of measures concerning scholarships for vulnerable groups.
- Complete the work by gathering information on health, living standards and academic outcomes across all students. This would require linking the social card system, digital education record-keeping and data from the Statistical Office of the Republic of Serbia.
- Revise the Law on Social Protection to allow the expansion of direct cash benefits.
- Assess funding based on available data and organise high-level meetings (including with the Ministry of Finance) to ensure adequate support and political buy-in.
- Consult and involve local NGOs to ensure adequate visibility of the measure for all vulnerable groups.
- Involve resource centres for disabled and vulnerable students at the local level in the process.
- Plan and potentially engage with local self-governments to develop their own schemes.

Source: OECD peer-learning workshops.

13.2.3. Create a more inclusive and fairer social security system in Serbia

An inclusive and fair social security system calls for a combination of policies that encourage people to participate in formal employment and that bring the unemployed back to work. Only 6.6% of those registered as unemployed in Serbia received unemployment benefits in 2020, indicating that such benefits do not act as a safety net for previously employed people (Figure 8.10 of Chapter 8 – Panel A). High unemployment among youth implies that many lack the opportunity to contribute to unemployment insurance over a long enough period to qualify for the benefits. Likewise, the relatively high shares of people who are long-term unemployed and who work informally, have often either exhausted their benefits and/or do not contribute to social security. Encouraging formal employment and bringing people back to work through a combination of policies would be important to increase social security coverage and to strengthen the inclusiveness and effectiveness of the social security system. Possible policy actions include ALMPs, incentives to encourage formal employment and other job-creating policies (e.g. fostering entrepreneurship). Social security contributions financed more than 60% of social protection spending in

2015 (Stokić and Bajec, 2019[43]); as such, low coverage also jeopardises the financial sustainability of the system.

Further reduction of high social security contributions in combination with other policy instruments to support low wage earners, was also one of the peer-learning priorities. Serbia has one of the highest labour tax wedges[9] in the region (Figure 8.11 of Chapter 8 – Panel A), reflecting high social security contributions in total labour taxes,[10] High tax wedges tend to discourage employers from formalising employment relationships with workers. Progressivity of personal income tax[11] is very modest in Serbia, with personal income tax being subject to three flat-rate bands (a tax-free threshold, a 10% band and a 15% band). This means low wage earners face a high relative tax wage in comparison to those earning average wages. At 35% of the average wage, Serbia's relatively high floor for social security contributions also penalises part-time workers; in fact, the minimum social security contribution base is close in magnitude to the level of the minimum wage. For someone working part-time, earning a salary equivalent to half the minimum wage, the tax wedge is 44.1% compared with a tax wedge of 36.7% for someone earning minimum wage (World Bank, 2019[29]). Recently, Serbia made efforts to reduce the tax burden. In 2020, the Law on Personal Income Tax increased the non-taxable salary from RSD 16 300 to RSD 18 300 per month; the figure was raised again in 2021 to RSD 19 300 (Government of the Republic of Serbia, 2021[12]; Government of the Republic of Serbia, 2021[44]). In 2019, social security contributions were reduced by abolishing the employers' contribution to unemployment insurance, thereby reducing the employer contribution to total social contributions from 37.8% to 37.05% of gross wage (World Bank, 2019[29]). The Law on Compulsory Social Security Contributions (effective in 2020) further reduced contribution rates for pension and disability insurance, from 26% to 25.5% (Government of the Republic of Serbia, 2021[12]). Such efforts to reduce social security contributions and to increase the progressivity of personal income tax should be accompanied by complementary policies, including introducing contribution subsidies for new low-income workers and new labour market entrants (World Bank, 2019[29]).

Considering rapid ageing in Serbia, addressing social security coverage can further improve the financing of old-age pensions, an integral part of any social security system. Population ageing is reducing the social security coverage rate, with potential negative impact on future pensions, which are largely reliant on social contributions. Pensions, the majority of which are old-age benefits, make up the largest social protection function (46.2% of total expenditure in 2015). At 10.3% of GDP in 2018, Serbia's expenditures for old-age benefits are in line with the EU average (Eurostat, 2018[45]; SORS/Ministry of Finance, 2020[46]). Serbia has a public statutory pension system that is compulsory for all persons engaged in standard or non-standard forms of employment and is based on a pay-as-you-go scheme. The number of individuals enrolled in voluntary private pension funds is very low, around 2.9% in 2019 (National Bank of Serbia, 2020[47]). Each contributor currently supports more than 1.26 pensioners in Serbia, one of the highest support ratios in Europe (Figure 8.12 of Chapter 8). Various reforms to address pension fund deficits have been implemented in Serbia (see Chapter 8). While the last in-depth projection and simulation exercise was done in 2014, decreasing trends in both expenditure and adequacy are expected to continue, indicating that the financial health of the system has improved (World Bank, 2020[48]). Since 2020, Serbia introduced the so-called "Swiss formula" indexation of pensions, which ties pension increases to the growth rate of the average salary and consumer prices (Government of the Republic of Serbia, 2021[12]).

While Serbia has good pension coverage, it could consider improving the adequacy of its pensions system. Although there is no official data on pension coverage ratios, it is estimated that around 10% of persons over pensionable age do not have the right to an old-age disability or survivor pension (European Centre for Social Welfare Policy and Research, 2021[49]). Moreover, the number of pensioners has been falling since 2014 while the population over 65 increased. This reflects the gradual implementation of pensionable age reform and falling use of early pension provisions, which have been made less attractive. However, non-coverage should be monitored directly because in the absence of social pension provisions, lack of coverage may generate situations of vulnerability. Appropriately designed social pensions would be a key tool to prevent old-age poverty in that case. Adequacy of pensions, however, is low. The latest

available data (June 2020) show about one-quarter of pensioners received less than EUR 128.50 per month, approximately one-third the cost of the average minimum consumer basket for a three-person household (ESPN, 2017[6]; Pension and Disability Insurance Fund for the Republic of Serbia, 2019[7]).[12] In 2019, the at-risk-of-poverty rate for a household with two adults and at least one person over the age of 65 was 18.4%, compared to the EU average of 11.9% (Eurostat, 2018[50]). Given the difference in the retirement age for men (65) and women (61.5)[13], as well as the lower overall contribution periods, the gender gap in pension income for those aged 65-79 is sizeable, at about 25.5%. Moreover, despite the relatively high coverage rate, it exhibits a large gender gap (15% in 2016) (ESPN, 2017[6]).

13.2.4. Deliver community integrated social services

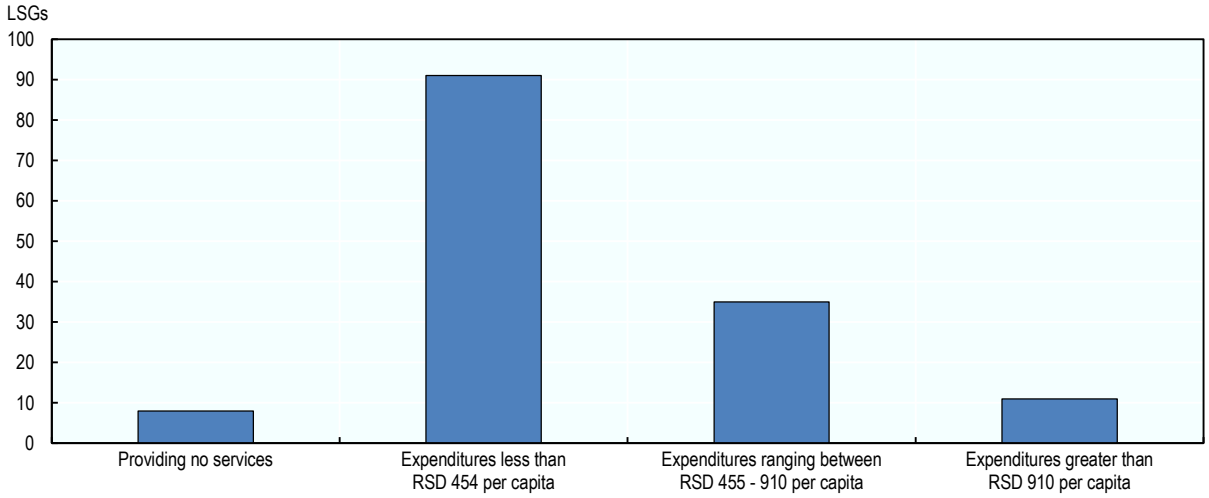
Establishing community-integrated social services emerged as one of the key policy priorities during the peer-learning workshops. As indicated in the regional chapter on social cohesion (Chapter 8), community-integrated social services encompasses a range of approaches and methods for achieving greater co-ordination and effectiveness among different services, such as elderly care, healthcare, education and others, with the objective to achieve improved outcomes for services users.[14] During the workshops, participants stressed the importance of community-integrated services as a key lever to strengthen social protection, deliver social care services and reduce long-term dependency on social welfare through better labour market integration.

To create an integrated approach, it would be important to build adequate capacities within local governments, which should be on the frontline of delivering community-integrated social services. Local governments generally have good knowledge of challenges and needs of vulnerable groups. The Law on Social Protection (2011) established the principle of decentralising the provision of social assistance (Table 8.7 of Chapter 8); however, municipalities in Serbia still lack adequate capacities to deliver quality social services. The majority of social services in recent years were homecare for the elderly and day-care centres for children with disabilities; other types of services are present only in bigger cities. Eight municipalities (of 145) did not provide any social care services in 2018 (Matković, 2018[51]). Local government revenues amounted to 14.3% of total public revenues in 2019, which is relatively low compared with the OECD average of 42.4% (Figure 8.14 of Chapter 8). Most (76.5%) of the funding dedicated to social services at the local level comes of the local government budgets; 17% is earmarked transfers[15] for social care services from the central level and the remainder comes from other sources, such as donations (Matković and Stranjaković, 2020[52]). The regulation on earmarked transfers is currently under revision and should build on a revised and updated mapping of social services.

High regional variations in spending on social care services show the necessity to reassess the actual needs and to reconsider the Regulation on Earmarked Transfers in Social Protection. A recent mapping of 145 municipalities shows that 8[16] did not establish social care services and 91 dedicated only very small amounts to such services – less than RSD 454 per capita, per year (Figure 13.2). Among the eight that provided no services, five are among the most deprived and least-developed municipalities (Matković and Stranjaković, 2020[52]). Among municipalities that showed no or below average per-capita spending on social care service, the majority (19 of 24) have at-risk-of-poverty rates ranging from 45.4% to 66.1%[17] (SORS/World Bank, 2016[5]). About 34.5% of all expenditure (RSD 1.26 billion of RSD 3.65 billion) was spent in the City of Belgrade, which was proportionally larger than its share (24%) of Serbia's total population. Despite the existence of earmarked transfers for social care services, these were not allocated to about 40 municipalities, including the 8 without social services and 6 that were categorised as least developed (Matković and Stranjaković, 2020[52]).

Figure 13.2. A large share of local self-governments, including those with significant poverty pockets, spend very little on social services

Distribution of local self-governments (LSGs) by annual per-capita expenditures on social care services



Source: Matković and Stranjaković (2020[52]), Mapping Social Care Services within the Mandate of Local Governments in the Republic of Serbia, http://socijalnoukljucivanje.gov.rs/wp-content/uploads/2020/09/Mapping_social_care_services_and_material_support_within_the_mandate_of_LSG_in_RS.pdf#page=16&zoom=100,66,818.

StatLink https://stat.link/6imgwr

Assess the needs of people and introduce services as needed. Most (81%) spending on local social care services went to community-based daycare services, of which about 75% was dedicated to homecare for adults and the elderly, daycare for children with disabilities, and personal child attendants (Matković and Stranjaković, 2020[52]). Some services, such as respite care, drop-in centres, daycare for children in conflict with the law, elderly daycare and family outreach workers, exist in very few LSGs. Services for independent living for persons with disabilities were especially undeveloped. Protected housing for people with disabilities, which is critical for the deinstitutionalisation process and is entirely funded from the national budget in less-developed municipalities, is available in only six municipalities and cities, for 107 beneficiaries. Across all types of social care services, most beneficiaries were from urban areas (Table 13.1). In January 2020, the Government adopted the Strategy for Deinstitutionalization (2022-2026) to support the development of social protection services in local communities. As part of the new strategy, various additional social services are planned to be gradually developed in local communities and interconnected with services such as employment, health care, education and housing, in collaboration with civil society organisations and other service providers. This is an important step in supporting delivery of community-integrated social services.

Table 13.1. Daycare community-based services are a prevalent type of social services in Serbia

Distribution of LSG beneficiaries by type of social service, 2018

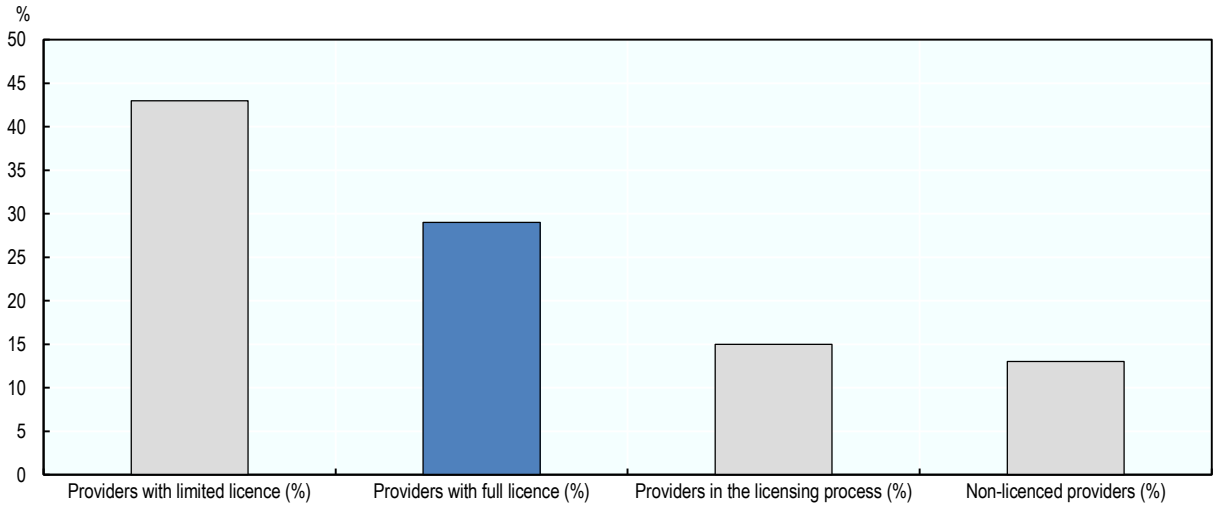
		LSGs by type of service		Beneficiaries by type of service	
		Number of LSGs	% of LSGs	Number of beneficiaries	% of beneficiaries from urban area
Daycare community-based service	Homecare for adults and the elderly	123	85	16 678	52
	Homecare for children (and youth)	14	10	227	67
	DC for children with disabilities	64	44	1 999	81
	DC for adults with disabilities	20	14	449	56
	Homecare for the elderly	6	4	345	90
	DC for children in conflict with the law	3	2	53	89
	Personal child attendant	76	52	1 762	84
	Drop-in center	2	1	327	100
Services for independent living	Personal assistance	17	12	223	91
	Protected housing for youth	14	10	50	88
	Protected housing for adult people with disabilities	6	4	107	96
Emergency and temporary accommodation services	Shelter for adults/the elderly	12	8	647	71
	Shelter for children	7	5	441	71
	Shelter for violence victims	15	10	358	66
	Respite care	6	4	85	69
Counselling/therapy and social/educational services	Counselling center	37	26	1 239	80
	Family outreach workers	5	3	387	75

Note: Note: DC = daycare.
Source: Matković and Stranjaković (2020[52]), Mapping Social Care Services within the Mandate of Local Governments in the Republic of Serbia, http://socijalnoukljucivanje.gov.rs/wp-content/uploads/2020/09/Mapping_social_care_services_and_material_support_within_the_mandate_of_LSG_in_RS.pdf#page=16&zoom=100,66,818

The growing role of civil society organisations (CSOs) as providers of care services has been very important in providing social care services at the local level and creating a broader, community-based ecosystem of actors. Further efforts should be made to increase their quality. CSOs have been engaged in providing a variety of social services, including one-third of services for children with disabilities, beneficiaries of daycare centres and elderly homecare. They have also been setting up enterprises for professional rehabilitation and employment for people with disabilities, in line with the type of employment prescribed in the Law on Professional Rehabilitation and Employment of Persons with Disabilities. Engagement of CSOs to provide care services has been fostered through the Social Protection Law of 2011, which stipulates the use of public procurement in the absence of established public institutions. For this purpose, the state set up functional and structural standards for social care services, licensing processes and control mechanisms (Matković, 2018[51]). Despite the efforts, lack of full licensing negatively affects the quality of services (Figure 13.3).

Figure 13.3. Improving the quality of social care providers

Share of beneficiaries served by various types of providers based on their licensing status (%), 2018



Source: Matković and Stranjaković (2020[52]), Mapping Social Care Services within the Mandate of Local Governments in the Republic of Serbia, http://socijalnoukljucivanje.gov.rs/wp-content/uploads/2020/09/Mapping_social_care_services_and_material_support_within_the_mandate_of_LSG_in_RS.pdf#page=16&zoom=100,66,818

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13.3. Indicators to monitor overall policy progress in Serbia

To monitor policy progress in improving labour market integration of vulnerable groups and addressing other policy priorities in Serbia, this report suggests a set of key indicators. These are set out in Table 13.2, which includes values for Serbia and benchmark countries (either the OECD or the EU average, based on data availability).

Table 13.2. Indicators to monitor progress in implementing policy in Serbia

2019, unless otherwise specified

Indicators	Serbia	Benchmark value
Long-term unemployment (% of total unemployment)	59.7	25.8
Youth (aged 15 to 24) not in employment, education or training (NEET) (%)	16.2*	15.5*
Labour force participation rate (gender gap)	15.4*	16.5
In-work at-risk-of-poverty rate (%)	7.8*	9.2
At-risk-of-poverty rate (%)	21.7*	16.2*
ALMP participants (% of registered unemployed)	5.3**	71.4**
Caseload (number of jobseekers) of public employment service (PES) staff	436****	139****
Unemployed persons receiving unemployment benefits (% of all unemployed)	6.6*	45.7*
Persons above retirement age receiving a pension (% of persons above retirement age)	63.5*	95.8*

Note: *2020, **2018 ***2017, ****2016. The 2030 targets are based on the current OECD averages, except for *In-work at-risk-of-poverty rate (%)* for which the 2030 target is based on the EU average, for the *Caseloads (number of jobseekers) of public employment service (PES) staff* and *Persons above retirement age receiving a pension (% of persons above retirement age)* for which the target is based on Slovenia, and for *ALMP participants (% of registered unemployed)* for which the target is based on Hungary.

Source: World Bank (2021[1]), *World Development Indicators* (database), https://databank.worldbank.org/source/world-development-indicators; ILO (2021[53]), *ILOStat* (database), https://ilostat.ilo.org/data/; CPESSEC (2019[54]), Centre of Public Employment Services of Southeast European Countries, https://www.docdroid.net/qvBC3jr/statisticki-bilten-br-9-cpessec-finalno-converted-pdf; RCC (2021[55]) Regional Cooperation Council, https://www.rcc.int/download/docs/Study-on-Youth-Employment-in-the%20Western-Balkans-08072021.pdf/7464a4c82ee558440dfbea2e23028483.pdf; Jahja Lubishtani (2018[56]), The Effectiveness of Active Labour Market Policies in Reducing Unemployment in Transition Economies, https://core.ac.uk/download/pdf/226765796.pdf; World Bank (2018[16]), Functional Reviews of the Public Employment Services in the Western Balkans, https://openknowledge.worldbank.org/bitstream/handle/10986/35656/Functional-Reviews-of-the-Public-Employment-Services-in-the-Western-Balkans-Overview.pdf?sequence=1&isAllowed=y; European Commission (2016[57]), Assessment Report on PES Capacity, https://ec.europa.eu/social/BlobServlet?docId=16967&langId=en; OECD (2021[14]), *Competitiveness in South East Europe 2021: A Policy Outlook*, https://doi.org/10.1787/dcbc2ea9-en; World Bank/WIIW (2021[4]), SEE Jobs Gateway (database), https://data.wiiw.ac.at/seejobsgateway-q.html.

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Notes

[1] Calculation based on data from the 2020 Annual Report of the National Employment Service (NSZ, 2020[64]) and SEE Jobs Gateway (World Bank/WIIW, 2021[4]).

[2] Young people often face poor employment prospects due to lack of work experience and tend to work mostly under temporary and part-time contracts, leading to a slow transition to permanent employment. Lack of formal recognition of work experience gained during their studies further affects the issue (ETF, 2021[9]).

[3] Including reducing the number of days needed to conclude an individual employment plan with a young person after initial registration with the NES as unemployed.

[4] It is likely that many Roma do not identify as such in censuses for fear of discrimination (Minority Rights Group, 2021[61]).

[5] Individuals who own more than a basic living area (defined as a one room per family member) and agriculture land of 0.5 hectares are not entitled to FSA, unless this property is mortgaged for valorisation of cash benefits (Vuković, 2014[58]).

[6] Many applicants are required to submit substantial documentation, which might be a high burden for some segments of population, including Roma, many of whom do not have birth certificates (Vuković, 2014[58])

[7] Yearly tuition fees vary between EUR 285 and EUR 2 280[7] in public institutions, and between EUR 1 000 and EUR 4 500 in private institutions (Živadinović, 2017[38]). The latter is relatively high, considering an average GDP per capita of about EUR 4 950 in 2017 (Eurostat, 2021[59]). About 59% of students had to self-finance their participation in higher education in 2017 (SORS, 2019[63]).

[8] This likely reflects that the scholarships were conditional only on enrolment, rather than on both enrolment and performance.

[9] The tax wedge is defined as the ratio between the amount of taxes paid by an average single worker (a single person at 100% of average earnings) without children and the corresponding total labour cost for the employer. This indicator is measured in percentage of labour cost. (OECD, 2021[62]).

[10] At 37.8% in Serbia, the contribution rates significantly exceed the Western Balkan 6 average of 29.7% (World Bank/WIIW, 2019[65]).

[11] Progressivity of personal income tax is calculated as a percentage point increase of tax wedge between workers earning 67% of the average wage to workers earning 167% of the average wage (World Bank/WIIW, 2019[65]).

[12] The monthly cost of the average minimum consumer basket (for a three-person household) varies significantly among municipalities, ranging from EUR 268 in Leskovac to EUR 541 in the City of Belgrade in 2017.

[13] Following the 2014 pension reforms, retirement age for women is to increase gradually until it reaches 65 years of age in 2032 (in parity with retirement age for men).

[14] Definition from the Council of Europe (CoE, 2007[60]).

[15] Earmarked transfers for social services were first introduced in 2016 and were an essential contribution to improving social care services in Serbia (Matković and Stranjaković, 2020[52]).

[16] Odžaci, Ub, Požega, Svrljig, Gadžin Han, Žitorađa, Trgovište and Bosilegrad.

[17] Such municipalities include: Osečina, Koceljevo, Vladimirci, Nova Crnja, Rekovac, Tutin, Sjenica, Novi Pazar, Preševo, Bujanovac, Trgovište, Bosilegrad, Surdulica, Vladičin Han, Lebane, Žitorađa, Merosina, Doljevac, and Gadžin Han. Municipalities in the same range of at-risk-of-poverty rates that spend above average on social services include Bojnik, Krupanj, Medveđa, Babušnica and Crna Trava.

Part III Green recovery

14 A green recovery in the Western Balkans

This chapter discusses key challenges for ensuring a green recovery through sustainable energy transition in the Western Balkans, and considers possible solutions. The regional economies have made important progress in support of the clean energy transition, particularly in transposing the European Union acquis communautaire for the energy sector, securing membership in the Energy Community, and adhering to associated treaties. Nonetheless, much work remains: to date, the Western Balkan economies lack a comprehensive and unified plan for the transition, taking into account supply and demand for different forms of energy across the region, and energy trade at both intra-regional level and with neighbouring countries. In particular, the challenge of replacing baseload power currently generated from coal has not been resolved. To address the remaining challenges the Western Balkan economies can advance in several interrelated areas: continue their transition away from coal towards cleaner forms of energy; strengthen their performance on energy efficiency; reform energy pricing in an equitable and strategic way that takes account of both vulnerable groups and environmental concerns; enhance regional integration in the energy sector; and mobilise financial resources for a green recovery.

The Initial Assessment of this Multi-dimensional Review (MDR) of the Western Balkans identified a green recovery from the Covid-19 pandemic as one of the priorities for all economies in the region (OECD, 2021[1]). Energy and air pollution are complex challenges and significant obstacles to future economic development and the well-being of citizens and the environment. Coal accounts for a very large share of energy supply across Western Balkan economies, with the exception of Albania, which relies almost exclusively on hydropower. Many coal power plants are old and should be decommissioned, or require significant investments to ensure reliable electricity supply. At the same time, levels of energy efficiency in the Western Balkan region are low, particularly, in buildings due to inefficient heating systems, which are frequently fired by fuelwood, and poor insulation. Coal, particularly when burned with old technologies, in combination with inefficient heating systems, cause significant air pollution and are drivers of climate change, both of which rank among the region's foremost environmental burdens.

A green recovery in the Western Balkans requires energy sector reforms to make the region healthier and more attractive to live in, to return to, and to invest in. A cleaner environment, in particular less air pollution, especially in the major urban centres, is a top desire of residents. A rapid phase-out of coal, and of fuel wood in urban areas, would dramatically reduce air pollution. At the same time, successful energy sector reforms that dismantle monolithic structures in the state-owned utilities would enhance their productivity and open up space for dynamism in the sector from new companies. Cleaner air and new opportunities for employment would follow, and make the region more attractive for young people.

In the longer-run, a greener trajectory for the region can create opportunities through broad transformation. Beyond the energy sector itself, transformation towards more resource-efficient modes of production and entirely new manufacturing and service activities will have to follow as next steps. Such a longer term vision of a greener future will require modernisation across many sectors, and links to the education and skills framework that will lead the transformation, induce innovation, and create next generation business and employment opportunities.

Economic recovery from the COVID-19 pandemic is an opportunity to "build back better", a strategy being adopted by many governments around the world, with a particular focus on leveraging post-pandemic growth in energy demand and investment to drive the low-carbon transition. While the pandemic has spurred aggressive action, governments need to recognise that global environmental emergencies – such as climate change and biodiversity loss – could cause far larger social and economic damage. In this regard, "building back better" means governments should design economic recovery packages that trigger investments and societal changes to both reduce the likelihood of future shocks and improve resilience when they do occur, whether from disease or environmental degradation. At the heart of this approach is the transition to more inclusive, more resilient societies with net-zero greenhouse gas (GHG) emissions and much-reduced impacts on nature (OECD, 2020[2]) (Box 14.1). A green recovery in the Western Balkans should leverage opportunities to modernise and upgrade the region's energy systems, which would dramatically reduce GHG emissions.

Box 14.1. OECD suggestions for "Building back better: A sustainable, resilient recovery after COVID-19"

While the OECD strategy to build back better covers multiple dimensions and spans many specific policy areas, the following are some key recommendations for governments to consider.

- Screen all elements of stimulus packages for their longer term implications, prioritising actions that:
  - Combine benefits for jobs and reducing inequality, with implications for longer term resilience – including by avoiding locking-in emissions-intensive infrastructure and systems.
  - Can be implemented quickly, including "shovel-ready" targets for public investment and existing policy frameworks that can be rapidly scaled up.
  - Favour cross-sectoral, cross-government approaches that take a long-term, systemic view (rather than promoting single technological outcomes).
- Create pipelines of shovel-ready, sustainable infrastructure projects, including by co-ordinating cross-ministry action to facilitate rapid implementation while avoiding favouring established emissions-intensive activities just because they can be deployed quickly.
- Maintain – and increase – long-term environmental ambitions (including net-zero GHG targets) and ensure stimulus packages trigger policies and investments that align with those objectives, for example:
  - Avoid relaxing existing environmental regulations to provide near-term relief, as the costs of longer term vulnerability will often outweigh short-term gains.
  - Make subsidies and other government support for specific industries conditional on both environmental improvements (e.g. reducing GHG emissions) and better overall resilience (including for the workforce).
  - Make energy pricing coherent as part of post-crisis fiscal reorganisation, including phasing out fossil-fuel subsidies and ensuring carbon pricing schemes include social protection (e.g. using carbon pricing revenue to mitigate distributional implications for households, as well as to finance support for structural adjustment of workers and communities).
- Actively support development of green finance flows to improve resilience, encouraging longer term horizons for financial decisions:
  - Measure the consistency of investments and financing with climate change mitigation and resilience, building on existing private and public sector initiatives.
  - Promote robust and transparent definitions and standards for green finance in order to guide financial allocations and investment (e.g. the EU sustainable finance and taxonomy approach).
  - Increase potential for public finance to catalyse private investment by further empowering public finance institutions (e.g. by increasing lending authority and ability to co-invest).
  - Increase and improve capacities to assess, manage and publicly disclose climate change-related financial risks, building on existing frameworks and approaches (e.g. Task Force on Climate-related Financial Disclosures, Network of Central Banks and Supervisors for Greening the Financial System).
- Design public procurement processes that value both resilience and low-carbon while also promoting innovation: for example, ranking bids based on costs over the asset lifetime under different climate impact scenarios and accounting for life-cycle GHG emissions.

- Provide specific support for reskilling and training for industries affected by the immediate crisis and longer term decarbonisation, along with supportive policies (such as reforming housing) to encourage mobility.

Source: OECD (2020[2]), "Building back better: A sustainable, resilient recovery after COVID-19", *OECD Policy Responses to Coronavirus (COVID-19)*, OECD Publishing, Paris, https://doi.org/10.1787/52b869f5-en; Jachnik, Mirabile and Dobrinevski (2019[3]), "Tracking finance flows towards assessing their consistency with climate objectives", *OECD Environment Working Papers*, No. 146, OECD Publishing, Paris, https://dx.doi.org/10.1787/82cc3a4c-en.

This report builds on an extensive peer-learning process with practitioners in the region and expert assessment to provide suggestions for a green recovery in the Western Balkans. Building on the Governmental Learning Spiral methodology (Blindenbacher and Nashat, 2010[4]), two peer-learning workshops brought together experts and practitioners from across the region and beyond to prioritise among challenges and solutions, develop ideas for action, and learn from each other (Box 14.2).

Box 14.2. Multi-dimensional Reviews of the Western Balkans: From Analysis to Action through peer-learning

Peer-learning, as implemented following the Governmental Learning Spiral methodology was a key process in the Multi-dimensional Review project. With three overarching aims – to identify central issues hampering a green recovery at the regional and economy levels; to suggest ideas for future policy actions at the economy-level; and to exchange policy experiences – the process brought together key stakeholders from the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia). The peer-learning on a green recovery comprised two rounds of workshops (Round One, 4-5 February 2021 and Round Two, 11 May 2021), each attended by 25 experts (about five per economy) representing various societal perspectives, including government, civil society, academia and the private sector.

Workshop One started with a regional plenary to select the most important and most urgent issues related to a green recovery in the region (Table 14.1). Of 15 issues raised, the development of national energy and climate plans (NECPs) received the highest number of votes. This chapter and those following provide deeper analysis of the selected issues and policy suggestions clustered around several themes: progress and challenges in the energy sector; creating a credible vision and laying the institutional foundation for the low-carbon transition; boosting renewables; investing in energy efficiency; getting energy prices right; increasing cross-border energy trading; and mobilising financial resources for a green recovery.

Following discussion at the regional level during the Workshop One, participants worked in economy-level groups to start developing ideas for action. These activities became the basis for the Workshop Two. During the two workshops, participants from each economy met to further specify actions, processes and requirements pertaining to their action plans.

In Workshop Two, participants from the five economies reconvened to present progress in developing action plans and to pose to other participants the most pressing question in areas where they lack policy experience. Following the peer-learning exchange at the regional level, participants reassembled in their economy groups to suggest monitoring indicators relevant for their respective action plans.

Table 14.1. Results from voting on the most important and urgent issues

	Issues	Votes
1	Develop national energy and climate plan (NECP)	*******
2	Promote photovoltaic (PV) solar for households and small businesses	******
3	Increase the share of renewable energy sources	*****
4	End coal subsidies	*****
5	Improve policy development, co-ordination, co-operation and inclusiveness	***
6	Reform the energy sector and introduce incentives for energy efficiency	***
7	Address corruption and political nepotism	***
8	Reduce air pollution through decarbonisation	**
9	Align policies with the sustainable development goals (SDGs)	**
10	Integrate and liberalise energy markets	**
11	Do more scientific research	**
12	Complete the strategic and legal framework	*
13	Manage the energy transition with clear rules for all stakeholders	*
14	Plan and implement policy measures to promote energy efficiency and renewable energy sources	*
15	Create green jobs	*

Source: OECD peer-learning workshops.

Source: Blindenbacher and Rielaender (forthcoming[5]), *How Learning in Politics Can Work*; Blindenbacher and Nashat (2010[4]), *The Black Box of Governmental Learning The Learning Spiral - A Concept to Organize Learning in Governments*, World Bank Group, Washington, DC, https://doi.org/10.1596/978-0-8213-8453-4.

This chapter is divided into seven sections. Section 14.1 analyses energy sector and environmental challenges in the Western Balkan economies. Sections 14.2 elaborates a credible vision and the institutional foundations for the transition towards low-carbon energy. Section 14.3 considers options to boost renewables while Section 14.4 examines requirements for increasing investment in energy efficiency. Section 14.5 considers reforms to energy pricing, including the challenges and opportunities associated with removing fossil fuel subsidies and introducing carbon pricing. Section 14.6 covers regional integration of energy markets. Section 14.7 concludes with options to mobilise the public and private financial resources necessary to finance a green recovery.

14.1. Developments in the Western Balkans: Progress and challenges

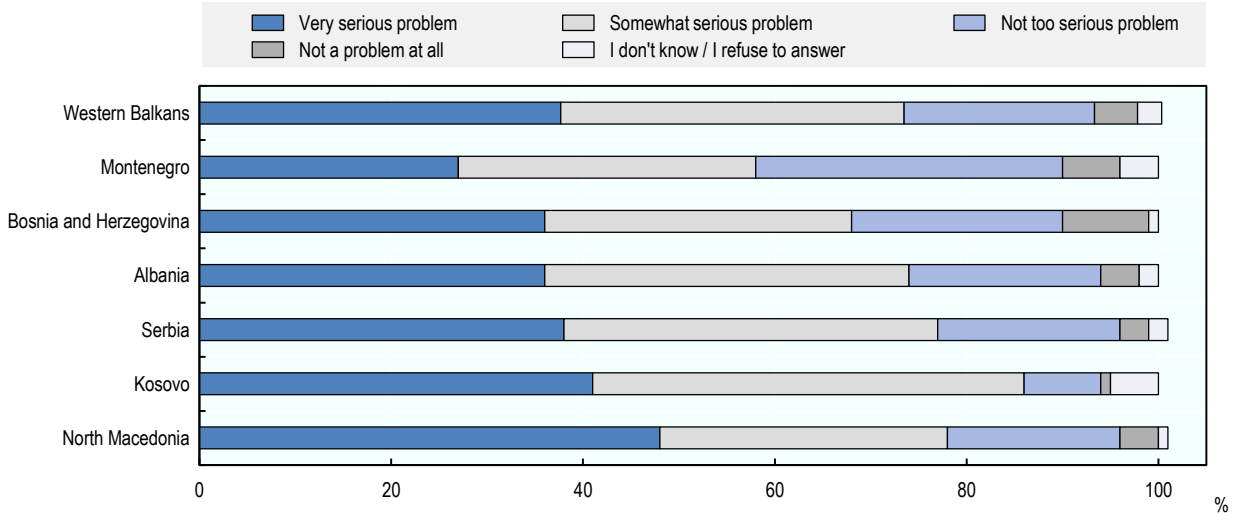
The Western Balkans' coal-heavy energy mix, coupled with low levels of energy efficiency, results in high levels of air pollution. On the supply side, the ageing fleet of coal-fired power plants drives pollution while on the demand-side, low energy efficiency in buildings and heating contributes to pollution. Renewables in Western Balkan economies' energy mix remain dominated by hydropower and biomass while solar and wind power are almost absent in the region's energy mix. As a consequence, air pollution is high in Western Balkan economies compared to other parts of Europe and has an important health impact. To finance electricity prices below production costs, dominant state-owned enterprises (SOEs) in the Western Balkan region are subsidised in a variety of ways, mainly for electricity generation from coal, locking in public financial resources that would be required for a clean energy transition.

Economies of the Western Balkans region have committed to ambitious climate and energy goals and a regulatory overhaul, but full implementation remains the challenge. The Energy Community Treaty, the EU Green Deal and Nationally Determined Contributions (NDCs) in the context of the UNFCCC COP process provide the main frameworks for ambitious commitments by the region's economies. Significant challenges remain, however, with implementation, capacity and political interference in energy markets.

14.1.1. Pollution and emissions have a toll on the well-being of people and the planet

Pollution is perceived as an increasingly serious problem by a majority of the population in all Western Balkan economies. In 2021, 74% of people in the region considered pollution a "serious" or "somewhat serious" problem (Figure 14.1), up from 64% in 2019. This could indicate both, a higher degree of awareness of pollution in the region as well as a rapidly deteriorating situation is in the eyes of the public (RCC, 2021[6]).

Figure 14.1. The majority of the population in the Western Balkans sees pollution as a problem in their location



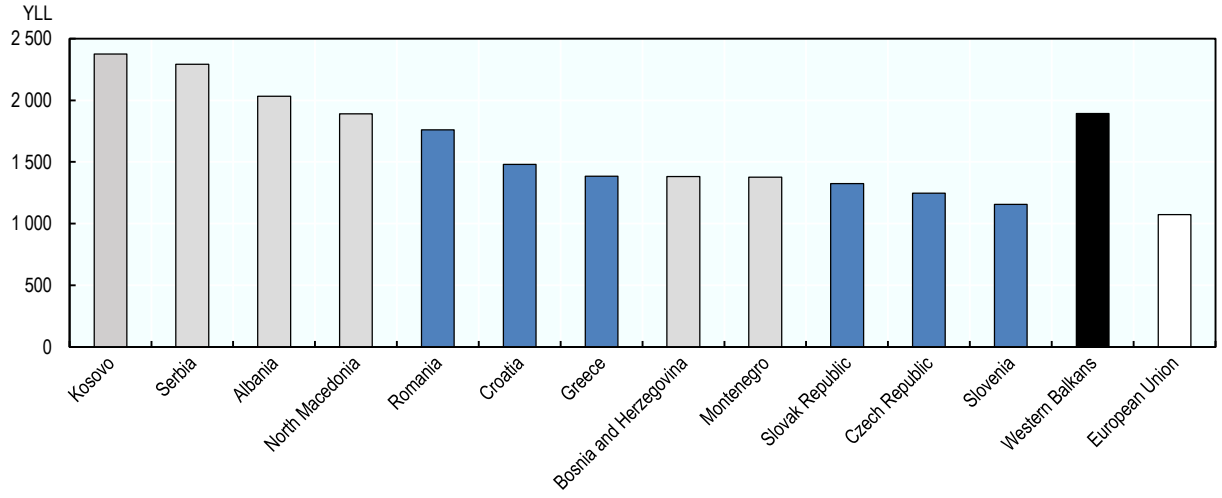
Note: Answers to the question: Do you consider pollution a problem in your place of living?
Source: RCC (2021[6]), Balkan Public Barometer (database), https://www.rcc.int/balkanbarometer/results/2/public.

StatLink https://stat.link/tqez1w

People in the Western Balkans region suffer more from exposure to fine particle pollution than elsewhere in Europe (European Environment Agency, 2020[7]). In an analysis of years of life lost due to air pollution (exposure to fine particles or particulate matter below 2.5 micrograms [PM2.5]), among 40 European jurisdictions, Kosovo ranked 2nd, Serbia 3rd, Albania 4th, North Macedonia 5th, Bosnia and Herzegovina 11th, and Montenegro 12th (Figure 14.2). The same study reported that, in 2016, an average of 130.1 people per 100 000 inhabitants in the Western Balkan region died prematurely as a consequence of air pollution (European Environment Agency, 2020[7]).

Figure 14.2. Air pollution in Western Balkan economies has important health impacts

Years of life lost (YLL) per 100 000 inhabitants attributable to exposure to PM2.5 pollution, 2016



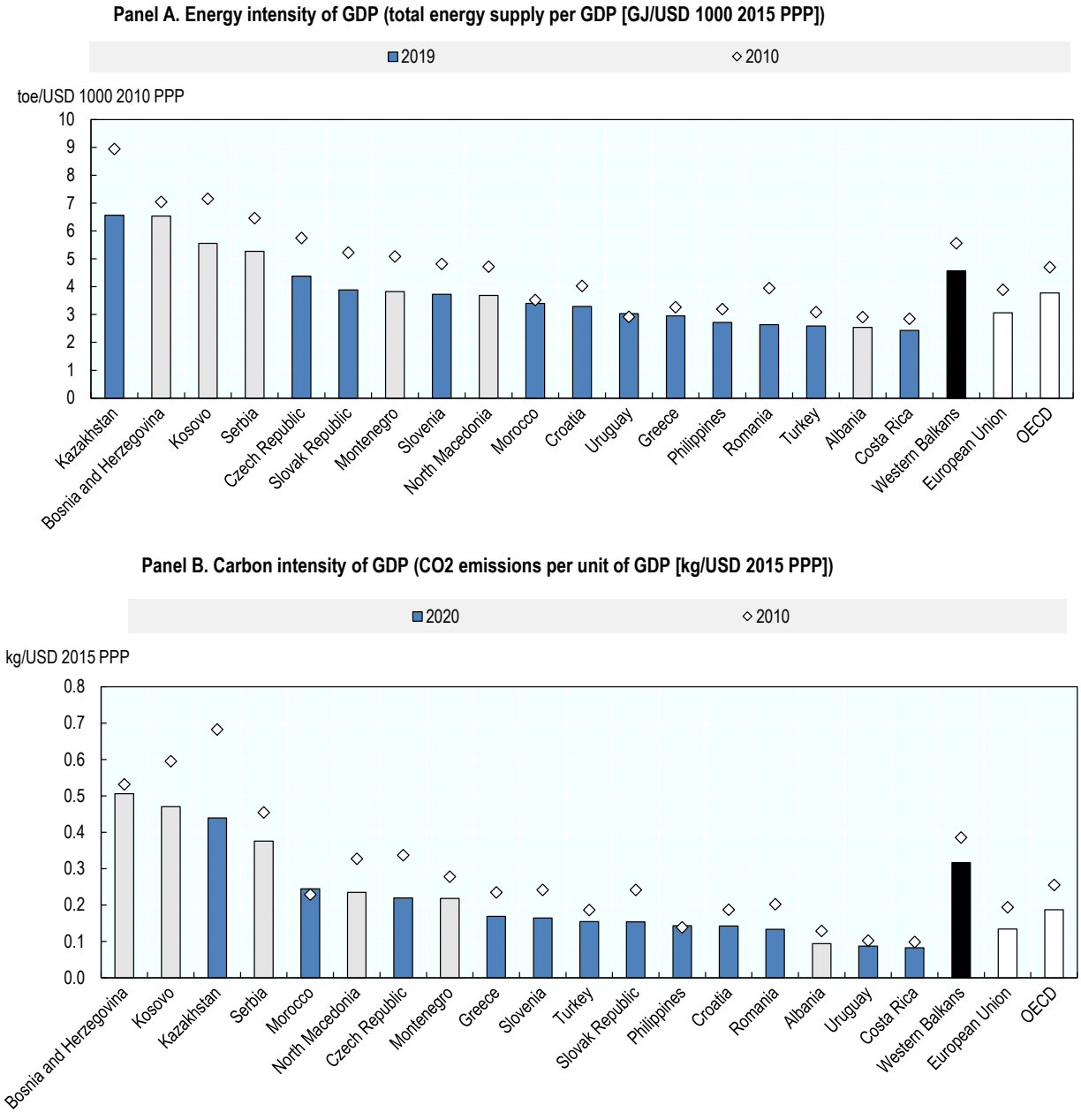
Source: European Environment Agency (2020[7]), Air quality in Europe: 2020 report, https://www.eea.europa.eu/publications/air-quality-in-europe-2020-report.

StatLink https://stat.link/7nz2id

The region exhibits low energy efficiency, which is a cause of significant CO2 emissions. In relation to economic output in the Western Balkans, both energy use and CO2 emissions remain high (Figure 14.3). While economies in the region have (since 2010) reduced their energy- and carbon-intensity per unit of GDP, they are still well above the averages for most regional peers and for EU and OECD countries. Carbon-intensity levels in Serbia, Kosovo, and Bosnia and Herzegovina are two to three times the OECD average. Albania is the region's positive outlier, thanks to its hydropower electricity generation. In contrast, CO2 emissions per capita are below the EU and OECD averages, reflecting lower levels of industrial activity per capita. Increasing such activity within the current energy systems would be undesirable and highly polluting.

Figure 14.3. Energy and carbon intensities are high in Western Balkan economies

Energy intensity of GDP (total energy supply per GDP [GJ/USD 1000 2015 PPP]) (Panel A), and carbon intensity of GDP (CO2 emissions per unit of GDP [kg/USD 2015 PPP]) (Panel B)



Notes: A. Czech Republic, Slovenia, Slovak Republic, Greece, Uruguay, Turkey and OECD reflect 2020 data instead of 2019. B. Montenegro, Kazakhstan and Philippines reflect 2019 data instead of 2020.
Source: IEA (2021[8]), Data and statistics, https://www.iea.org/data-and-statistics/.

StatLink https://stat.link/aviquw

Pollution and emissions intensity will both continue to pose challenges to the region's EU integration process. In recent years, the Energy Community Secretariat (ECS) brought forward several dispute settlement cases against the Western Balkan economies, reflecting disregard of pollution limits set out in National Emission Reduction Plans (NERPs). Going forward, quick progress within the EU on carbon pricing, and a possible carbon border adjustment tax, will likely have significant effects on electricity and other energy exports from the Western Balkans to the EU (Box 14.3).

Box 14.3. Challenging implications of the Western Balkans' current energy and emissions profile for EU integration

Air pollution by power plants is a particularly important topic in accession talks with the European Union

To date, Western Balkan economies have been unable to comply with the EU Large Combustion Plants Directive (2001/80/EC) (LCPD), which (since 2018) has required these economies to significantly reduce power sector emissions. The Directive, initially developed for EU countries, has been adapted for economies party to the Energy Community Treaty. The LCPD requires Western Balkan economies to adopt NERPs for such plants. However, Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia are all subject to dispute settlement cases brought by the ECS, resulting from their failure to comply (in 2018 and 2019) with pollution limits in their NERPs. In April 2021, the Secretariat also brought a dispute settlement case against Montenegro, when Montenegro failed to close the Pljevlja power plant after it exceeded its 20 000 hours quota under the LCPD's "limited lifetime derogation"

The combination of high CO2 emissions in the Western Balkans and progress with carbon pricing in the EU will likely complicate future energy exports from the former to the latter

The EU is a net importer of energy from the Western Balkans. Between 2018 and 2020, Western Balkans electricity exports to the EU amounted to 25 terawatt hours (TWh) - about 8% of the region's total coal-fired power generation. Since the Western Balkans are not part of the EU Emissions Trading System (EU ETS), current market conditions are skewed in favour of Western Balkan power producers. At the average EU ETS price in 2020, Western Balkan emissions would be priced at EUR 1.2 billion. Non-internalisation of these costs distorts the playing field between the EU and Western Balkan economies, which, according to the ECS, puts future market integration at risk. To address this, the EU would need to tax fossil-fuel based electricity imports at rates equal to the cost of carbon in the EU ETS, and to take account of other pollutants. This is already planned in the context of the EU's Carbon Border Adjustment Mechanism to be introduced over the period 2023-26 (see Section 14.5). More effective enforcement of the Energy Community Treaty would also be required.

Source: CEE Bankwatch Network (2021[9]). Comply or Close, https://www.complyorclose.org/wp-content/uploads/2021/09/En-COMPLY-OR-CLOSE-web.pdf; CEE Bankwatch Network (2020[10]), Four principles for a participatory just transition in the Western Balkans and Ukraine, https://bankwatch.org/wp-content/uploads/2020/12/position-JT-WB-UA.pdf; Energy Community Secretariat (Energy Community Secretariat, 2021[11]), WB6 Energy Transition Tracker, https://www.energy-community.org/regionalinitiatives/WB6/Tracker.html; Energy Community Secretariat (2020[12]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2020.html.

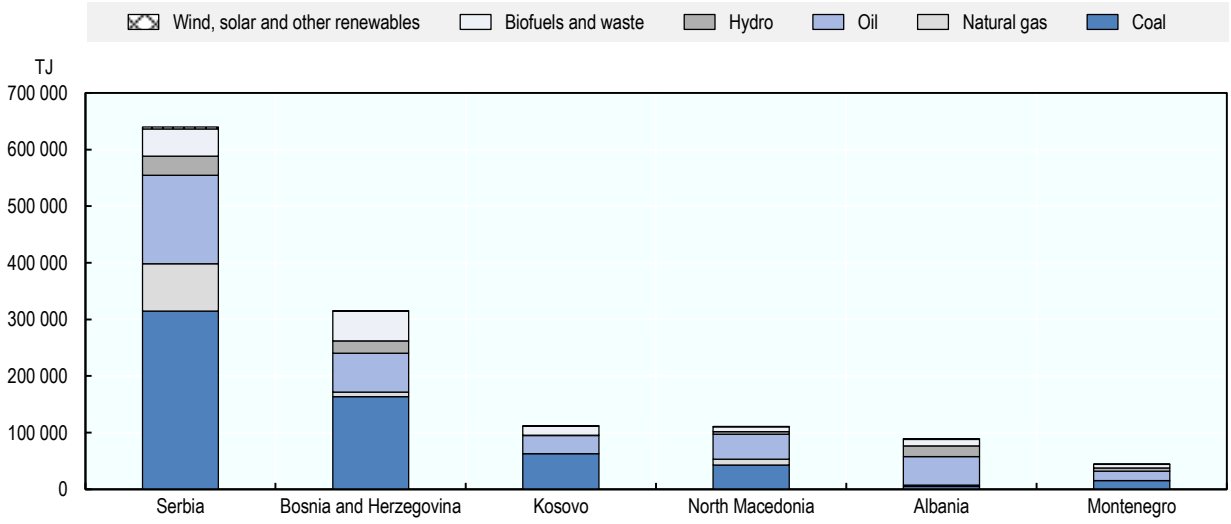
14.1.2. The region's coal-heavy energy mix, coupled with inefficient technology and buildings, are the main pollution drivers, with little improvement to date

The region's heavy reliance on burning coal, combined with outdated technology for power generation and heating, are the main drivers of high pollution and low efficiency. Combustion technologies (coal, oil, wood) make up the lion's share of energy supply in the region and are responsible for pollution (Figure 14.4). In 2015, burning coal and wood in homes (for cooking and heating) generated about half of PM 2.5 emissions in Kosovo and North Macedonia, and almost 60% in Bosnia and Herzegovina (World Bank, 2020[13]). Ageing coal-fired power plants are the region's main source of

electricity generation, except in Albania. Power generation from coal is, in turn, the region's largest source of CO2 emissions (Figure 14.5). Coal combustion is also the second-largest source of PM 2.5 emissions nationally and, by far, the leading source of transboundary pollution.

Figure 14.4. Combustion technologies (coal, oil, wood) make up a large share of the region's energy supply

Energy supply by source, 2019

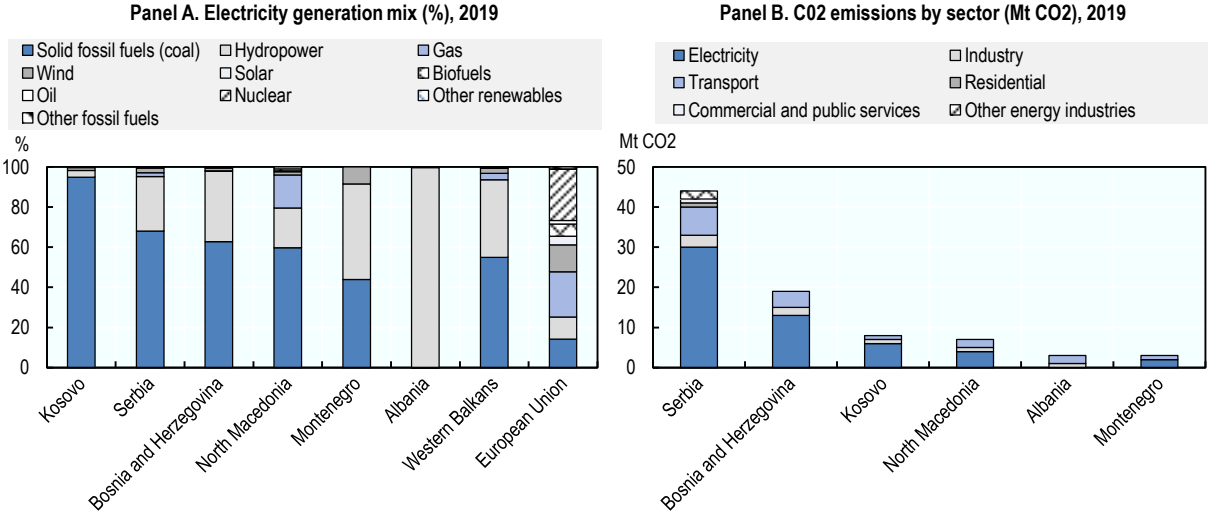


Source: IEA (2021[8]), Data and statistics, https://www.iea.org/data-and-statistics/.

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Figure 14.5. Coal-fuelled electricity generation drives CO2 emissions in Western Balkans

Electricity generation mix (%), 2019 (Panel A), and CO2 emissions by sector (Mt CO2), 2019 (Panel B)



Source: Panel A: Eurostat (2021[14]), Eurostat (database), https://ec.europa.eu/eurostat/. Panel B: IEA (2021[8]), Data and statistics, https://www.iea.org/data-and-statistics/.

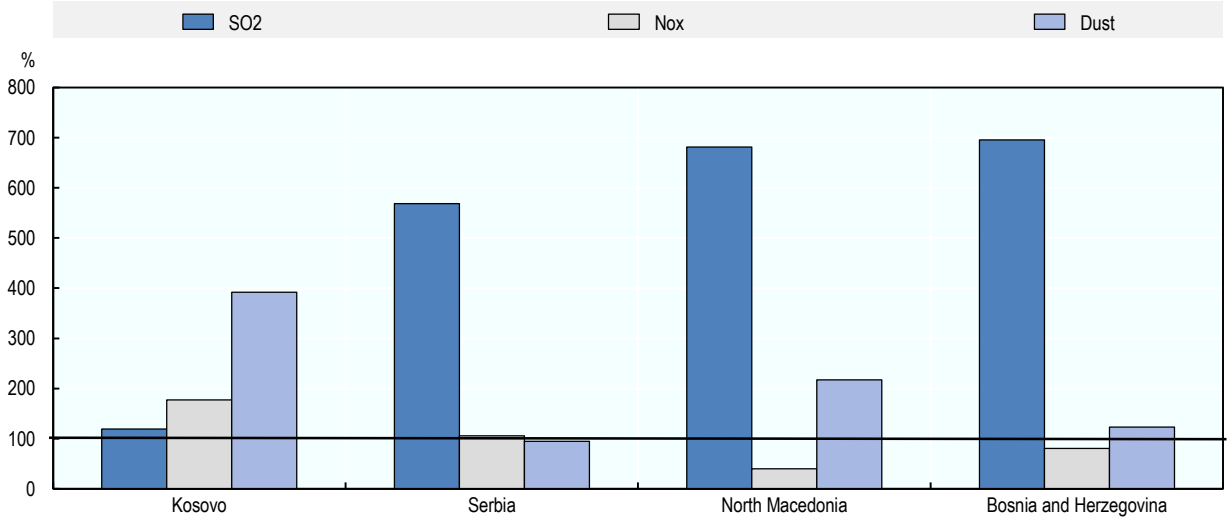
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On the supply side, the ageing fleet of coal-fired power plants drives pollution

Many coal-fired power plants in the Western Balkans emit massively more harmful substances than allowed. In 2020, the 18 coal-fired power stations in Serbia, Kosovo, Bosnia and Herzegovina, North Macedonia and Montenegro produced 2.5 times as much harmful sulphur dioxide (SO2) emissions as all of 221 coal plants in the EU combined. In Bosnia and Herzegovina, North Macedonia and Serbia, this SO2 pollution represents six to seven times the legal limit that economies committed to under the NERPs (Figure 14.6). The region's worst offender, the Ugljevik plant in Bosnia and Herzegovina, has plans for an additional 70 megawatts (MW) of new lignite-fired capacity. The existing facility has a desulphurisation system that has not yet been put to use (CEE Bankwatch Network, 2021[9]).

Figure 14.6. Large combustion plants in Western Balkan economies (except Albania and Montenegro) fail to respect pollution emissions ceilings

SO2, NOx and dust emissions (% of ceiling), 2019



Source: Energy Community Secretariat (2020[12]), Annual Implementation Report 2020, www.energy-community.org/implementation/IR2020.html.

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Air pollution continues to worsen with no improvement yet in sight. In 2020, emissions of nitrous oxide (N2O) grew by 6.5%, SO2 by 8.7%, and of dust by 4% over 2019 (Energy Community Secretariat, 2021[11]). Air pollution from Western Balkan coal plants was responsible for 19 000 deaths in the three-year period to 2020. Nearly 12 000 of the deaths resulted from breaches of legally binding pollution limits. According to these estimates, breaches of pollution limits at Western Balkans power plants caused between EUR 6.0 billion and 12.1 billion in health costs in 2020 (CEE Bankwatch Network, 2021[9]).

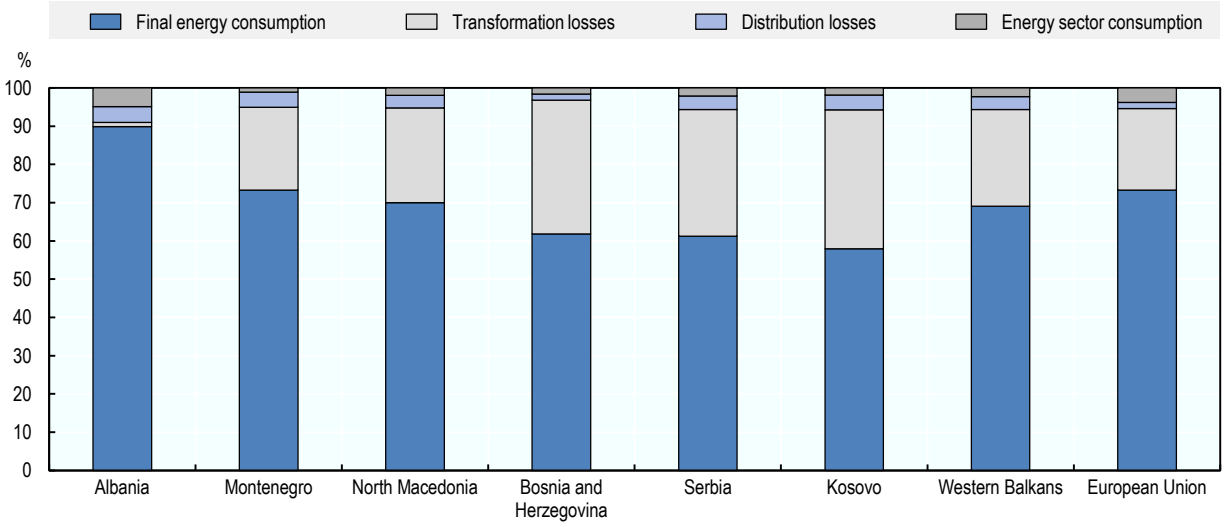
In spite of the aging fleet of thermal power plants (TPPs), few plants are scheduled for decommissioning and new plants are in the pipeline. Installed TPP capacity has remained constant since 2016, although due to some increase in renewables capacity, the share of fossil fuels in total installed capacity fell from 52% in 2016 to 48% in 2020. In Serbia, a 350-MW unit in the Kostolac B3 TPP is scheduled for completion by the end of 2022. Planned construction of a new 450-MW unit at the Tuzla TPP in Bosnia and Herzegovina has not yet been officially cancelled by the state-owned utility, EPBiH, despite an infringement case brought by the ECS. The Secretariat launched a second infringement case in April 2021, concerning Montenegro's Pljevlja plant, which does not meet the standards of the Industrial

Emissions Directive (IED) and has therefore reached the end of its useful life. Although new TPPs are still in the pipeline, some projects have been cancelled. In Kosovo, the state-owned production company Energy Corporation of Kosovo (KEK) cancelled (December 2020) a tender for a feasibility study on rehabilitation of the Kosovo A plant. In Serbia, the government instructed the state-owned production company Elektroprivreda Srbije (EPS) to halt the building of a new 350-MW unit in the Kolubara B TPP (Energy Community Secretariat, 2021[11]). North Macedonia's Oslomej TPP was scheduled for decommissioning in 2021 but is still operating.

Technical losses (transformation, transmission and distribution) add to the challenge of low energy efficiency. In 2019, distribution and transformation losses in Western Balkan economies amounted to almost 29% of primary energy consumption, compared with an EU average of 23% (Figure 14.7). In 2014, average transmission and distribution (T&D) losses across the region were as high as 16.6% of total electricity output, almost tripling the EU (6.2%) and OECD (6.3%) averages (World Bank, 2021[15]).

Figure 14.7. High losses plague transformation, transmission and distribution in the Western Balkans (% of total electricity output)

Primary energy consumption, 2019



Source: Eurostat (2021[14]), Eurostat (database), https://ec.europa.eu/eurostat/.

StatLink https://stat.link/lzh36m

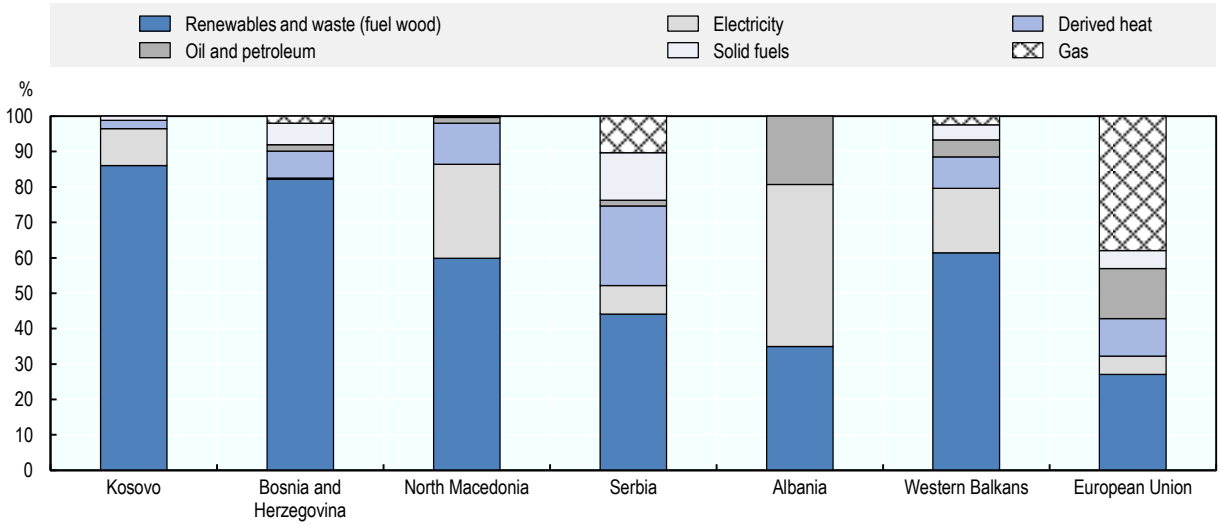
On the demand side, low efficiency in buildings and heating drives pollution

On the demand side, high energy intensity reflects low levels of energy efficiency, particularly in residential and commercial buildings. Households account, on average, for 32.4% of final energy consumption in Western Balkan economies compared with 26.9% in the EU (2019) (Eurostat, 2021[14]). According to the IEA and the World Bank, potential energy savings in the region could be as high as 10% in the transport sector, 10-35% for households, 35-40% in the public sector, 10-30% in services and 5-25% in industry and commerce. The share of energy consumption corresponding to buildings ranges from 30% in Bosnia and Herzegovina to almost 50% in North Macedonia (World Bank, 2018[16]), with estimated potential energy savings ranging from 20% to 40% (World Bank, 2018[16]).

Buildings in Western Balkan economies are poorly insulated, while space heating is often based on outdated and polluting devices. The vast majority of the housing stock in the region is outdated, having been built in the 1950-80s before proper energy efficiency standards were established. In turn, many buildings constructed since 1990s were built without regard to energy efficiency standards (EBRD, 2016[17]). A large share of buildings are heated with inefficient stoves and boilers that use wood, lignite and coal and other solid fuels such as waste (Figure 14.8), and many buildings are poorly insulated (World Bank, 2020[18]; Eurostat, 2021[14]). The share of households equipped with central heating systems or having access to district heating ranges from less than 10% in Montenegro to over 40% in Serbia (Đurić, Krstić and Jović, 2019[19]). Penetration of heat pumps remains negligible.

Figure 14.8. Renewables, waste (fuel wood) and electricity are the predominant fuels used for space heating in the Western Balkans

Heating by fuel, 2018



Source: Eurostat (2021[14]), Eurostat (database), https://ec.europa.eu/eurostat/.

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14.1.3. Renewables remain dominated by hydropower and biomass

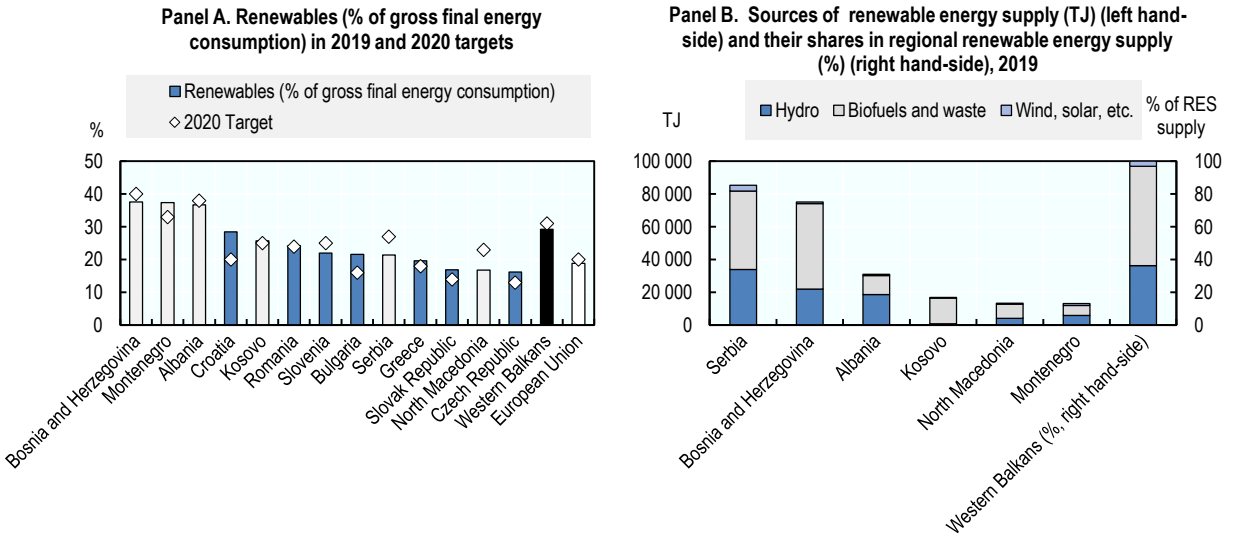
The Western Balkans region boasts a significant share of renewable energy. Based on the definition of the 2009 EU Renewable Energy Directive (RED) (2009/28/EC), renewables (including biofuels) account for 18.2% of final energy consumption in the Western Balkans in 2019, against only 10.2% in the EU (Eurostat, 2021[14]). This puts most of the region close to or even above the EU-wide target of 20% of renewables in gross final energy consumption set out in the RED, which the regional economies adopted in 2012 (Figure 14.9 - Panel A).

Fuel wood – a major pollutant – accounts for a large share of this renewable energy. Some 60% of the region's renewable energy supply stems from biofuels – mainly fuelwood used for heating and cooking (Figure 14.9 - Panel B). In terms of final energy consumption, this share climbs to 88% (Eurostat, 2021[14]). Although counted as a (traditional) renewable energy source, outdated equipment (stoves and ovens) and current practices (e.g. burning undried wood) render biomass (fuel wood) a major contributor to PM2.5 emissions, which are associated with heavy air pollution and high premature deaths in the region (World Bank, 2017[20]).

Modern, cleaner biomass offers potential, but remains untapped. The share of modern biomass in final energy consumption is very small in the Western Balkans (World Bank, 2018[16]). While woody biomass is widely used, additional biomass supplies could be tapped through woody biomass residues, agriculture, and energy crops. Agricultural biomass alone is estimated to be able to cover 25% of heat demand in the region (World Bank, 2017[20]). To date, EU provisions on the sustainability of biofuels have been transposed only in Serbia and Montenegro; none of the Western Balkan economies have established an operational system for verifying biofuel sustainability. Through such a mechanism, producers or users of biofuels or bio-liquids could show compliance with the sustainability regime of the EU Directive 2009/28/EC (Energy Community Secretariat, 2021[11]; Energy Community Secretariat, 2020[12]).

Figure 14.9. Most Western Balkan economies have met or are close to meeting their 2020 renewable energy targets, but largely because of high reliance on biofuels and waste

Renewables (% of gross final energy consumption) in 2019 and 2020 targets (Panel A), and sources of renewable energy supply (TJ) and their shares in regional renewable energy supply (%), 2019 (Panel B)



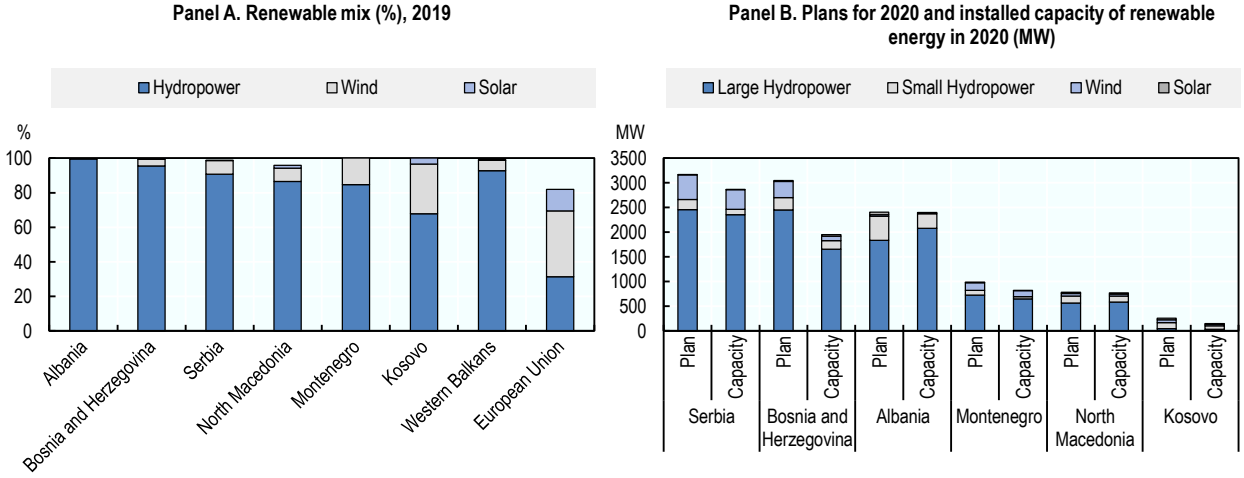
Source: Eurostat (2021[14]), Eurostat (database), https://ec.europa.eu/eurostat/; IEA (2021[8]), Data and statistics, https://www.iea.org/data-and-statistics/.

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Hydropower is the second-largest renewable source (after biomass) and has been heavily prioritised by planning and incentives. Across the region, hydropower accounts for 36% of total renewable energy supply (Figure 14.9 - Panel B) and makes up a full 93% of renewables in electricity generation (Figure 14.10 - Panel A). Total installed hydropower capacity is about 8.2 GW, with 7.4 GW from large plants and 0.8 GW from small hydropower plants (SHPPs). Renewable energy action plans, formulated following a 2012 decision by the Energy Community Ministerial Council, lean heavily on hydropower, with targets ranging from 79% of planned power from renewable sources in Kosovo to 96.5% in Albania (Figure 14.10 - Panel B). To meet these targets, the economies introduced incentives schemes directed largely at hydropower, not wind or solar (WBIF, 2019[21]). In North Macedonia and Serbia, for example, there is no limit on the number of SHPPs that can benefit from feed-in tariffs (FiTs), while the solar capacity allowed to benefit such incentives is very limited (CEE Bankwatch Network, 2019[22]).

Figure 14.10. Electricity from renewables: Hydropower dominates, while plans for wind and solar remain unambitious

Renewable mix in the electricity sector (%), 2019 (Panel A), and planned vs installed capacity of renewable energy (MW), 2020 (Panel B)



Source: Eurostat (2021[14]), Eurostat (database), https://ec.europa.eu/eurostat/; Energy Community Secretariat (2021[23]), Annual Implementation Report 2021, www.energy-community.org/dam/jcr:93722964-1ab1-404f-85b7-45cd7da1ffd0/EnC_IR2021_151121.pdf; Government of the Republic of North Macedonia (2015[24]), Renewable Energy Action Plan for the Republic of Macedonia until 2025 with vision until 2030, www.energy-community.org/dam/jcr:04a15cad-b128-4bb5-80b1-62e2a03e2b21/NREAP_2016_MA.pdf, Government of the Republic of Bosnia and Herzegovina (2016[25]), Renewable Energy Action Plan of Bosnia and Herzegovina, www.energy-community.org/dam/jcr:ef59bc5d-a6c3-48a8-9653-2a40e5721d58/NREAP_2016_BH.pdf; Government of the Republic of Kosovo (2013[26]), National Renewable Energy Action Plan (NREAP) 2011-2020, www.energy-community.org/dam/jcr:b1c8516c-1112-49bd-85eb-06629175e0b3/NREAP_2013_KV.pdf; Government of the Republic of Albania (2016[27]), Renewable Energy Action Plan, www.energy-community.org/dam/jcr:65a24569-9c85-4b49-b9eb-fcc30ffa8dc2/NREAP_2016_AL.pdf; Government of the Republic of Montenegro (2014[28]), Renewable Energy Action Plan, http://www.mek.gov.me/ResourceManager/FileDownload.aspx?rid=194055&rType=2.

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Hydropower incentives have particularly benefitted SHPPs, causing significant environmental and governance challenges. With renewable energy action plans predominantly aimed at expanding hydropower, the Western Balkans have experienced an SHPP boom: the number of such plants more than quadrupled over the last decade (CEE Bankwatch Network, 2019[22]). While SHPPs remain secondary in electricity generation, they create significant environmental destruction and absorb financial incentives that could otherwise be directed to other types of renewables. They are also often liked to corruption and illicit permitting (Box 14.4).

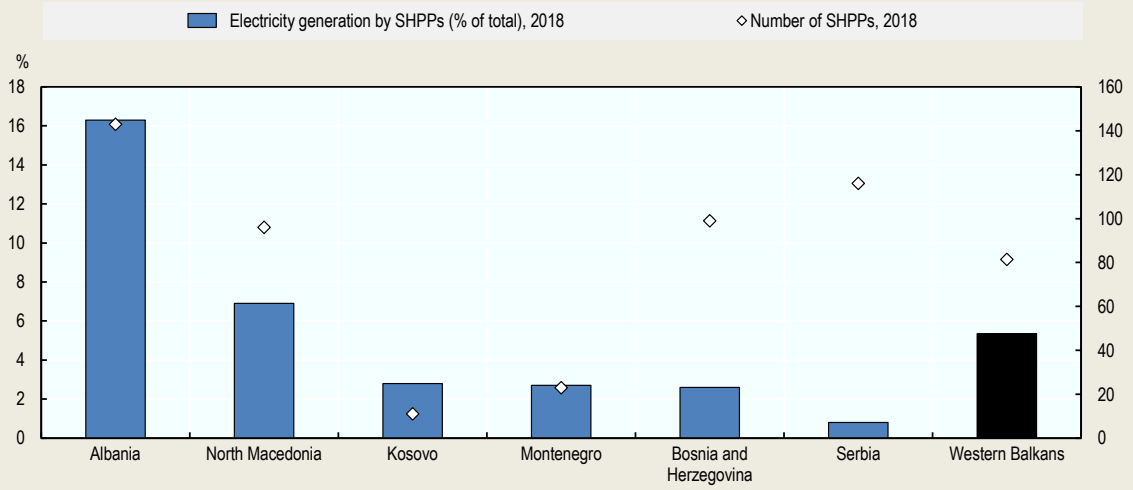
Use of wind and solar power remain much below potential, despite these technologies having become far cheaper in recent years. Together, wind and solar account for only 3% of total energy supply (Figure 14.9) and 6% of renewable electricity generation across the region (ranging from 1% of renewable electricity generation in Albania to 30% of renewable electricity generation in Kosovo). In 2020, total installed capacity amounted to 674 MW of wind power and 109 MW of solar, representing only small shares of the estimated, cost-competitive potential of 12.2 GW (5.5%) for wind and 4.4 GW (2.5%) for solar (IRENA, 2017[29]; World Bank, 2018[16]). Albania and North Macedonia have introduced auctions of renewables; the other economies have yet to launch such schemes. Particularly slow growth of renewables in 2020 may be related to the COVID-19 crisis (Energy Community Secretariat, 2021[11]). The role of both wind and solar in current renewable energy plans does not yet reflect dramatic cost reductions for both types of energy, which, since 2010, have dropped by 39% for wind power and by 82% for solar (IRENA, 2019[30]).

Box 14.4. Environmental damage from SHPPs in the Western Balkans

Development of SHPPs in Western Balkan economies has been rapid over the last decade; with the exception of Albania, their contribution to overall electricity generation is low. The number of SHPPs in the region jumped from 108 in 2009 to at least 488 in 2018. From the mid-2000s, Albania and Bosnia and Herzegovina were the first countries to start issuing concessions for SHPPs. In 2018, SHPPs accounted for (on average) only 5.4% of electricity generation and 5% of installed electricity generation capacity. In all Western Balkan economies except Albania, SHPPs account for less than 10% of electricity generation.

Figure 14.11. SHPPs account for only a small share of electricity generation in all Western Balkan economies, except Albania

Electricity generation by SHPPs (% of total) and number of SHPPs, 2018



Note: The Western Balkan average includes Albania, Serbia, North Macedonia, Bosnia and Herzegovina and Montenegro. Small hydropower plants are defined as <10MW and <15MW in the case of Albania.
Source: CEE Bankwatch Network (2019[22]), Western Balkans hydropower - Who pays, who profits?, https://bankwatch.org/wp-content/uploads/2019/09/who-pays-who-profits.pdf.

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SHPPs have negative impacts on the environment and local communities in Western Balkan economies. In promoting SHPPs, Western Balkan economies failed to base incentive schemes on rigorous environmental standards and studies about the environmentally acceptable potential of small hydropower. Allocation of SHPP licenses often lacks transparency; promoters are often connected to the government and use loopholes to proceed with construction without the required permits or environmental impact assessments (EIAs). More problematic is that many SHPPs are constructed in protected areas without undergoing EIAs or adhering to construction standards. As a result, SHPPs damage aquatic systems: they frequently obstruct fish passages and reduce fish populations while also reducing river flows and ground water levels. In some cases, they completely dry riverbeds, reducing water availability for local communities.

Going forward, it would be important to ensure the environmental sustainability of SHPPs. Incentives for SHPPs were either reformed or phased out in 2021 in Serbia, Albania and Bosnia and Herzegovina and Kosovo imposed a moratorium on their construction in 2018. However, generous incentives for SHPPs remain in place in North Macedonia. Remaining subsidies for SHPPs should be re-evaluated. In turn, Western Balkan economies should ensure that newly constructed SHPPs respect environmental standards and re-assess the environmental sustainability of existing SHPPs.

Source: Energy Community Secretariat (2020[12]), Annual Implementation Report 2020, https://www.energy-community.org/implementation/IR2020.html; CEE Bankwatch Network (2019[22]), Western Balkans hydropower - Who pays, who profits?, https://bankwatch.org/wp-content/uploads/2019/09/who-pays-who-profits.pdf; CEE Bankwatch Network (CEE Bankwatch Network, 2017[31]), Broken Rivers - The impacts of European-financed small hydropower plant on pristine Balkan landscapes, https://bankwatch.org/wp-content/uploads/2017/12/broken-rivers-bankwatch-study-on-hydropower-in-the-balkans-merged.pdf; CEE Bankwatch Network (2015[32]), Financing for hydropower in protected areas in Southeast Europe, https://bankwatch.org/sites/default/files/SEE-hydropower-financing.pdf; USGS Science for a Changing World (2018[33]), Hydroelectric Power Water Use, https://www.usgs.gov/special-topic/water-science-school/science/hydroelectric-power-water-use?qt-science_center_objects=0#qt-science_center_objects.

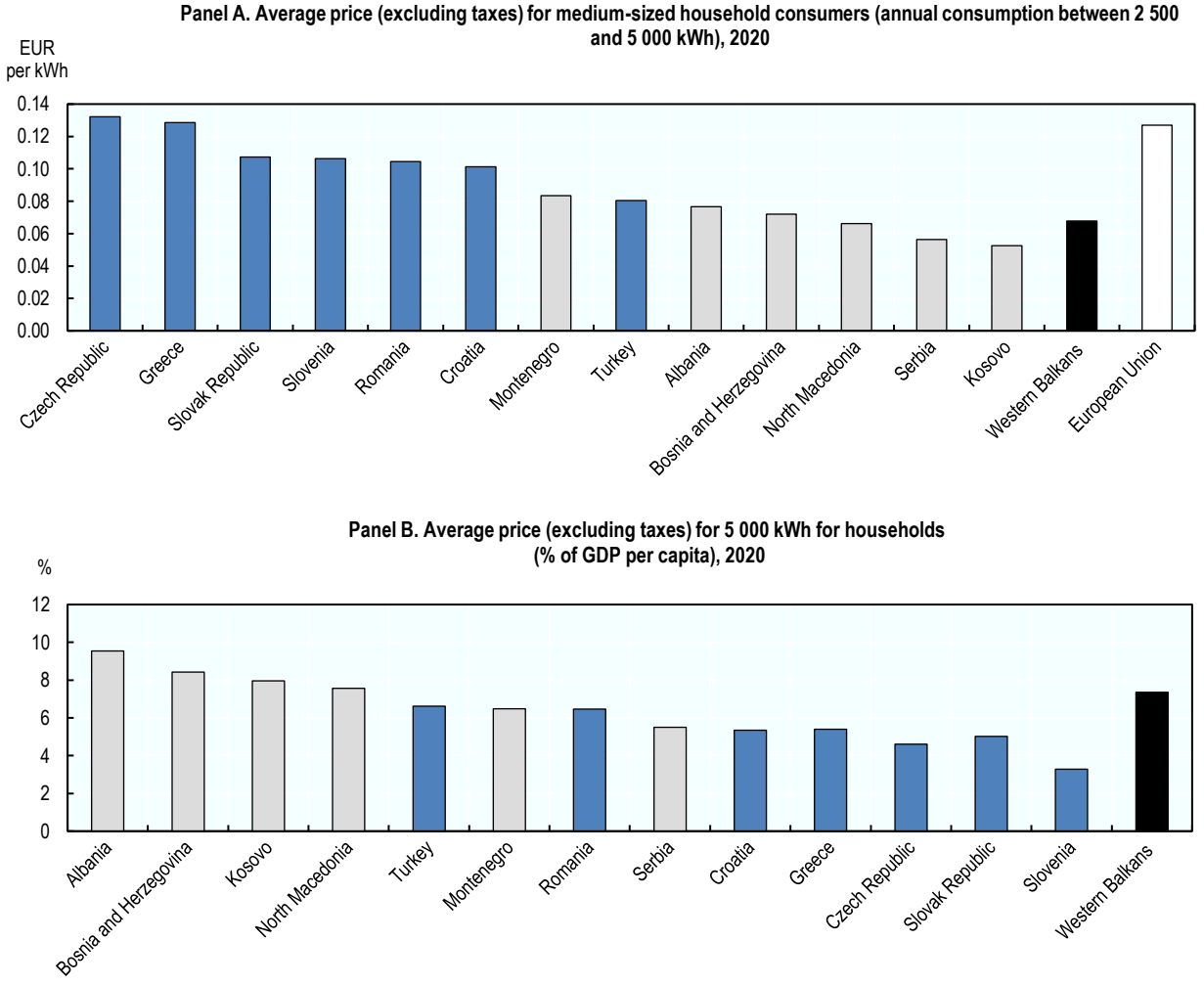
14.1.4. Below-cost electricity prices, subsidies and inefficient state-owned enterprises (SOEs) that dominate markets combine into a challenging mix

Electricity prices charged to households in the Western Balkans are often below production costs, generating significant deficits of between 1% and 6% of GDP.[1] Contrary to practice in the EU, electricity prices for households in the region are generally lower than those charged to industry – and often lower than the operating expenses per unit of energy. At EUR 0.0679 per kilowatt hour (/kWh) on average in the Western Balkan region before taxes (which are minimal in the region) in 2020, prices were significantly below the EU average of EUR 0.127/kWh (Figure 14.12 - Panel A). This results in deficits for electricity producers: Albania and Montenegro had the largest revenue shortfalls, at 6% of GDP, driven mainly by below-cost recovery tariffs. Overall, below-cost recovery tariffs represented about 70% of the revenue gap, with distribution losses ranging between 10% and 30% and underbilling responsible for the remaining shortfall (World Bank, 2018[16]).

Despite artificially low prices, the cost of electricity for households as a share of income is relatively high, making price increases politically unpalatable. For a typical Western Balkan household, annual electricity consumption of 5 000 kWh costs 7.4% of annual GDP per capita, compared with only 3.6% across the EU (both including taxes and levies). This implies a higher cost burden on household budgets in the Western Balkans (Figure 14.12 - Panel B). Bringing the average household electricity price in the region in line with the EU average would push the annual households electricity cost up to 11% of GDP per capita, excluding taxes – and to 19% if the EU tax burden were to be applied. Under these circumstances, increasing electricity prices carries a high social cost, which helps explain current political resistance to taking this step.

Figure 14.12. Household electricity prices are lower in the Western Balkans than in the EU, but electricity is more expensive relative to income

Average price (excluding taxes) for medium sized household consumers (annual consumption between 2 500 and 5 000 kWh), 2020 (Panel A), and average price (excluding taxes) for 5 000 kWh for households (% of GDP per capita), 2020 (Panel B)



Note: Albania and Montenegro data are from 2019 instead of 2020.
Source: Eurostat (2021[14]), Eurostat (database), https://ec.europa.eu/eurostat/.

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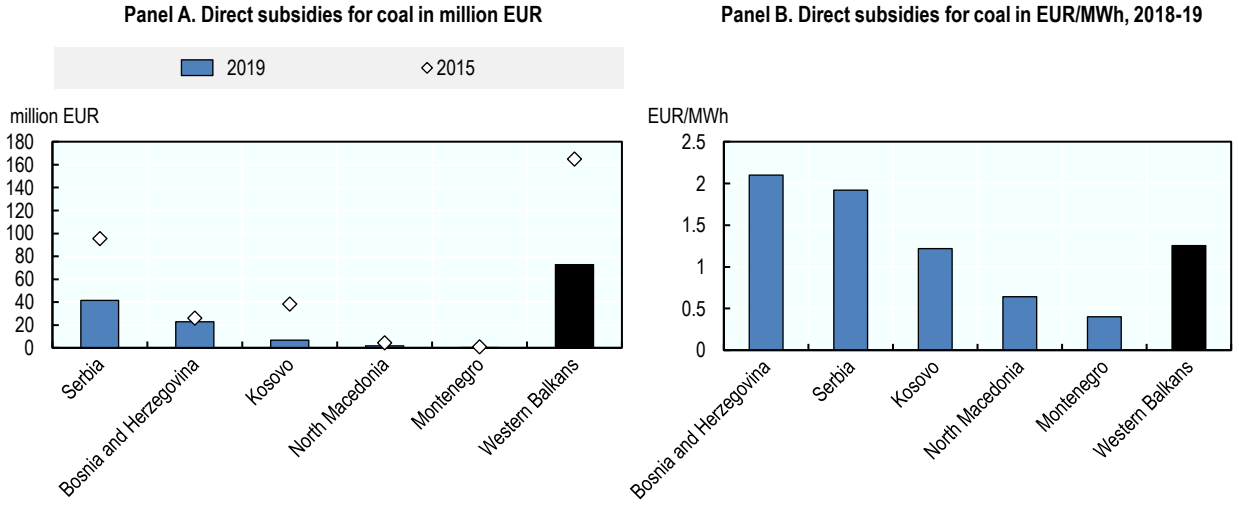
To compensate state-owned producers for losses linked to below-cost prices, governments subsidise these enterprises in a variety of ways. Subsidies typically fall across three categories: fiscal support (debt write-off, tax concessions, state loans and direct budget transfers); public finance support (state guarantees for the construction of new coal-fired TPPs); and enterprise investment support (pass-through costs in regulated tariffs or shareholder contribution for investment). Subsidies may also include the toleration of non-payment of taxes and other liabilities to the state (Miljević, 2020[34]). The largest share of public finance support to power-sector SOEs is in the form of loans from state-controlled institutions and loans guaranteed by the state. In Serbia, guarantees and loans to power-sector SOEs are most prevalent; over the period 2018-19, guarantees for coal-based electricity generation alone reached almost

EUR 1.2 billion. In Bosnia and Herzegovina, such loan guarantees amounted to more than EUR 742 million in 2019. This type of support represents a fiscal risk for the region's governments in the case of insolvency of the SOEs (Miljević, 2020[34]).

Most of this government support to SOEs in the Western Balkans subsidises coal (except for Albania). Direct subsidies to coal amounted to EUR 73 million in the region in 2019 (Figure 14.13). While this is significantly down from 2015, it does not suggest that governments have abandoned the use of subsidies. Rather the decline reflects lower interest rates on government bonds and commercial loans used in calculating direct subsidies as well as the absence, in 2019, of write-offs of debts and receivables in the coal sector (Miljević, 2020[34]).

Figure 14.13. Subsidies for coal in the Western Balkan region remain high

Direct subsidies for coal in million EUR, 2015 and 2019 (Panel A), and direct subsidies for coal in EUR/MWh, 2018-19 (Panel B)



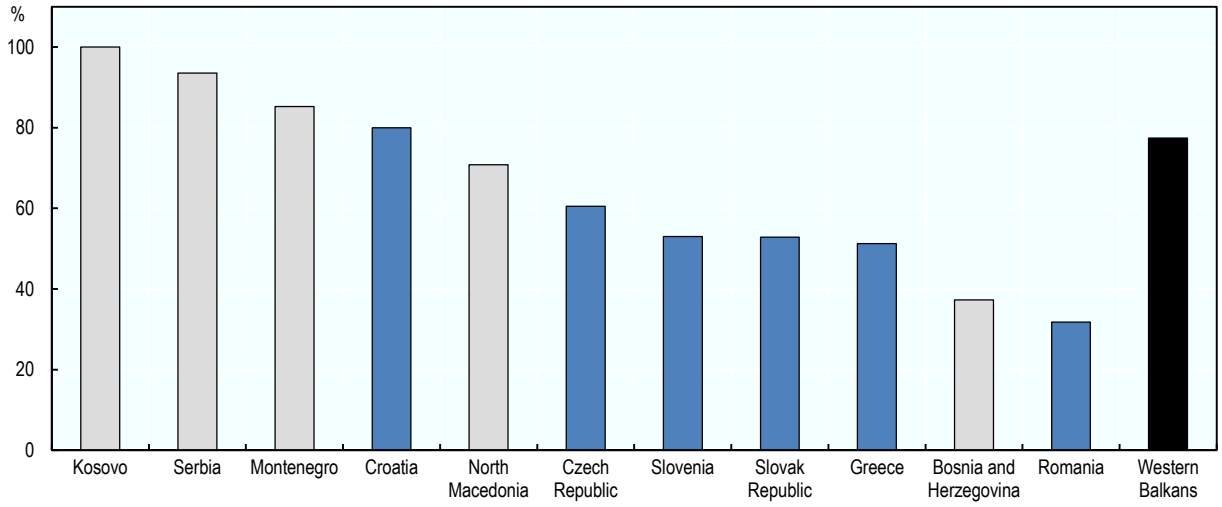
Source: Miljević (2020[34]), *Investments into the past - An analysis of Direct Subsidies to Coal and Lignite Electricity Production in the Energy Community Contracting Parties 2018–2019*, https://energy-community.org/dam/jcr:482f1098-0853-422b-be93-2ba7cf222453/Miljevi%25C4%2587_Coal_Report_122020.pdf.

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Subsidies and artificially low electricity prices have locked in public resources and continue to prevent fair competition for alternative electricity. When electricity prices are below production costs, it has the negative effect of disincentivising private investment in electricity generation capacity. It also prevents the establishment of a level playing field that ensures market competition and liquidity (UNDP, 2011[35]). Such subsidies also generate wasteful spending of public resources (Miljević, 2020[34]). In addition, electricity prices below operating expenses lead to a shortage of financial resources for the maintenance of energy infrastructure. As a result, electricity markets in the Western Balkans are heavily dominated by incumbent state-owned electricity companies, with a downward trend visible only in North Macedonia (Energy Community Secretariat, 2020[12]). The share of electricity produced by the largest supplier in each market varies from 37% in Albania to 100% in Kosovo (Figure 14.14). These monopolistic market structures impede competition among various suppliers and make it difficult for new enterprises (e.g. those generating from renewable sources) to enter the market.

Figure 14.14. Competition in electricity generation remains limited in many Western Balkan economies

Share of the largest generator in each electricity market (% of total electricity generation)



Note: No data available for Albania.
Source: Eurostat (2021[14]), Eurostat (database), https://ec.europa.eu/eurostat/.

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With infrastructure aging, and commitments made to boost competition and improve regulation, pressure will increase to reform subsidies and SOEs in the Western Balkans. Article 18 of the ECT generally prohibits practices that impede free competition among undertakings.[2] Economies in the region have committed to further deregulation of domestic wholesale markets and the establishment of organised power markets. Meanwhile, the infrastructure of state-owned utilities continues to age. Without real competitors and benefitting from continuous state support, governance of SOEs has become inefficient, for example through overemployment or illiquidity. Going forward, to become viable corporate entities, these companies will need to reform (World Bank, 2018[16]).

14.1.5. Economies of the Western Balkans region have committed to ambitious climate and energy goals and a regulatory overhaul; full implementation remains the challenge

The Energy Community Treaty, the EU Green Deal and the UNFCCC COP process provide the main frameworks for ambitious commitments by the region's economies

Within the context of the Energy Community, the Western Balkan economies have committed to reform and adopt EU legislation on energy. The Energy Community, founded in 2006, provides the framework for the region's energy transition in the context of European integration. Through the Energy Community, the Contracting Parties have committed to implement the relevant EU energy *acquis communautaire* as well as the accumulated legislation, legal acts and court decisions that constitute the body of European Union law.

The EU's Third Energy Package of 2009, the Sofia Declaration of 2020 and the Clean Energy for All Europeans Package of 2021, form the basis for bold commitments towards reform and climate neutrality (Box 14.5). The Third Energy package is a core element of the legislation to which Western Balkan economies have committed through the Energy Community Treaty. It encompasses the following

five areas: unbundling, independent regulators, co-operation among regulators, cross-border co-operation, and open and fair retail markets. Through the Sofia Declaration on the Green Agenda for the Western Balkans, the region has also committed to concrete actions towards the EU's 2050 climate neutrality target. The 2020 Sofia Declaration foresees the alignment of the Western Balkans with the future European Climate Law, which proposes a legally binding target of net zero GHG emissions for the EU by 2050. Key legislative acts of the Clean Energy for All Europeans Package as well as the Energy Community Decarbonisation Roadmap were adopted by the Energy Community's Ministerial Council on 30 November 2021. They will strengthen the legal basis for decarbonisation (Energy Community Secretariat, 2021[11]).

Box 14.5. Three key frameworks for energy sector reform and climate neutrality: The EU's 2009 Third Energy Package, the 2020 Sofia Declaration and the Clean Energy for all Europeans Package

The EU Third Energy Package (2009) and the Clean Energy for All Europeans Package (2019)

The EU Third Energy package, adopted by the European Parliament and Council of the European Union in 2009, provides a legislative framework for four key reforms: opening of electricity and gas markets in the European Union; enhancing cross-border trade; improving access to diversified sources of energy; and reducing market concentration.

The Package consists of two directives and three regulations that provide common rules for the internal market in electricity and natural gas, along with conditions for access to the network for cross-border exchange of electricity and natural gas.

Core elements of the package include:

- Ownership unbundling, by splitting vertically integrated power utilities into separate corporate entities for generation of electricity and its subsequent transmission.
- Establishing an independent systems operator (ISO) and an independent transmissions operator (ITO).
- Establishing of a national regulatory authority (NRA) for each member state and the Agency for the Cooperation of Energy Regulators (ACER) as a collaborative forum for NRAs.

The Energy Community's Ministerial Council adopted four legal acts of the Third Energy Package in 2011: the Electricity Directive, the Natural Gas Directive, the Electricity Regulation and the Natural Gas Transmission Networks Regulation.

In 2019, parts of the Third Energy Package, most importantly, the Electricity Regulation and the ACER Regulation, were revised by the EU, as part of the Clean Energy for All Europeans Package. Through the Clean Energy for All Europeans Package, the EU overhauled its energy policy framework to move away from fossil fuels towards cleaner energy and to deliver on the EU's Paris Agreement commitments for reducing GHG emissions. For natural gas markets, the Third Energy Package is still applicable.

Five legislative acts of the EU's Clean Energy for All Europeans Package were adopted by the Energy Community's Ministerial Council on 30 November 2021, partly replacing the Third Energy Package legislation:

- The new Renewables Directive 2018/2001 introduces new rules on support schemes, which shall be granted in an open, transparent, competitive, non-discriminatory and cost-effective manner, and measures to tackle administrative barriers. It strengthens the existing sustainability criteria for biofuels and bioliquids and extends it to biomass fuels and for the first time sets an

indicative target for increasing the use of renewables in the heating and cooling sector. It also introduces the concept of renewable self-consumption and energy communities.

- The new Energy Efficiency Directive 2018/2002 sets stronger measures for buildings renovation and savings in end-use sectors, as well as rules on metering and billing of thermal energy, especially with respect to multi-apartment and multi-purpose buildings. Contracting Parties will be required to renovate each year at least 3% of the total floor area of buildings over 250 m2 owned and occupied by the central government of the Contracting Party. They will further be required to achieve new annual energy savings of at least 0.8% in end-use sectors such as buildings, industry and transport.
- The Governance Regulation 2018/1999 sets common rules for planning, reporting and monitoring on energy and climate policies and targets. It also ensures that planning and reporting are synchronized with the ambition cycles under the Paris Agreement.
- The Electricity Directive 2019/944 and Risk Preparedness Regulation 2019/941 aims at establishing a new flexible and market-based electricity market design to facilitate the integration of a greater share of renewables. It will also offer opportunities for self-consumers.
- The Gas Security of Supply Regulation 2017/1938 upgrades the existing security of supply in the Energy Community by ensuring a uniform legal and regulatory framework in the Contracting Parties, comparable to that in the EU.

Renewables, energy efficiency and greenhouse gas reduction targets for 2030 will be adopted at the next Ministerial Council in 2022.

The Sofia Declaration on the EU Green Deal (2020) and the Decarbonisation Roadmap (2021)

The Sofia Declaration endorses the EU's draft Climate Law for its application in the Western Balkans, once adopted in the EU. The Climate Law is the legislative expression of the goal set out in the European Green Deal (EGD), which is for Europe's economy and society to become climate-neutral by 2050. The Law seeks to ensure that all EU policies contribute to this goal, with all sectors of the economy playing their part.

Specific actions that the Western Balkan Contracting Parties have committed to include:

- Introducing carbon pricing instruments and aligning these with the EU ETS.
- Decreasing and gradually phasing out coal subsidies, strictly respecting state aid rules as applicable already through the Energy Community.
- Introducing market-based renewables support schemes.
- Actively participating in the Coal Region in Transition initiative for the Western Balkans.

To support initiatives under the Sofia Declaration, the EU adopted (October 2020) the Economic and Investment Plan for the Western Balkans, which offers EUR 9 billion for flagship projects, including projects in the energy sector aimed at decarbonisation, with investment directed into expanding renewables and renovation of buildings. Support through the new Western Balkans Guarantee facility, under the EU External Action Guarantee and the European Fund for Sustainable Development Plus, could potentially mobilise investments of another €20 billion in the next decade.

Together with the EU's Clean Energy for All Europeans Package, a Decarbonisation Roadmap was adopted by the Energy Community's Ministerial Council on 30 November 2021. This Decarbonisation Roadmap outlines a pathway towards 2030 energy and climate targets and mid-century climate neutrality for the Energy Community and includes the introduction of an emission trading mechanism in contracting parties by 2025.

Source: European Commission (2022[36]), Third Energy Package, https://energy.ec.europa.eu/topics/markets-and-consumers/market-legislation/third-energy-package_en; European Commission (2020[37]), Western Balkans Summit in Sofia: Important steps taken to advance regional cooperation to boost socio-economic recovery and convergence with the EU, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2051; Energy Community (2020[38]), Secretariat welcomes Sofia Declaration on the Green Agenda for the Western Balkans, https://www.energy-community.org/news/Energy-Community-News/2020/11/11.html; Energy Community (2021[39]), Fact Sheet, https://www.energy-community.org/news/Energy-Community-News/2021/11/30.html; Energy Community Secretariat (2021[40]), Decarbonisation Roadmap for the Contracting Parties of the Energy Community, https://www.energy-community.org/events/2021/11/MC.html; European Commission (2022[41]), Clean Energy for All Europeans Package, https://energy.ec.europa.eu/topics/energy-strategy/clean-energy-all-europeans-package_en; Energy Community (2011[42]), 9th Energy Community Ministerial Meeting Conclusions, https://www.energy-community.org/; European Commission (2020[43]), Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1811.

Within the broader context of the UNFCCC COP process, several economies in the region have put forward increasingly ambitious emissions reduction targets, but more will be necessary. Nationally Determined Contributions (NDCs) summarise how economies plan to reduce GHG emissions under the COP21 Paris Agreement. The NDCs originally submitted by Western Balkan economies lacked ambition: with the exception of Montenegro, all pledged to increase their GHG emissions as compared to 1990 levels - and some even against current levels.[3] In 2021, in line with the Paris Agreement's call for economies to submit updated NDCs ahead of COP26 (November 2021), Bosnia and Herzegovina, North Macedonia, Albania and Montenegro submitted more ambitious NDCs (Table 14.2). However, targets in these NDCs are not yet sufficiently ambitious to achieve climate neutrality by 2050. Serbia is the only economy in the region that has not yet submitted a more ambitious enhanced NDC while Kosovo is not a party of the UNFCCC and therefore does not have a NDC.

Table 14.2. GHG emissions reduction targets of Western Balkan economies have become more ambitious

GHG emissions reduction targets as part of NDCs in Western Balkan economies

	GHS emission reduction targets by 2030	
Economy	**Enhanced NDC (2021)**	**Original NDC**
Albania	-20.9% compared to business as usual	-11.5% compared to the baseline scenario
Bosnia and Herzegovina	-33.2% to -36.8% compared to 1990 levels	+20 to -3% compared to 1990 levels
Kosovo	No target	No target
Montenegro	-35% compared to 1990 levels	-30% compared to 1990 levels
North Macedonia	- 51% compared to 1990 levels	-30 to -36% compared to business as usual
Serbia	Not yet adopted	-9.8% compared to base-year (1990) emissions

Source: Government of Albania (2021[44]), Albania Revised NDC, https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Albania%20First/Albania%20Revised%20NDC.pdf; Government of Bosnia and Herzegovina (2021[45]), Nationally Determined Contribution of Bosnia and Herzegovina (NDC) for the Period 2020-2030, https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Bosnia%20and%20Herzegovina%20First/NDC%20BiH_November%202020%20FINAL%20DRAFT%2005%20Nov%20ENG%20LR.pdf; Government of the Republic of North Macedonia (2021[46]), Enhanced Nationally Determined Contribution, https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/The%20Republic%20of%20North%20Macedonia%20First/Macedonian%20enhanced%20NDC%20(002).pdf; Government of Montenegro (2021[47]), Updated NDC for Montenegro, https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Montenegro%20First/Updated%20NDC%20for%20Montenegro.pdf; Government of the Republic of Serbia (2017[48]), Intended Nationally Determined Contribution of the Republic of Serbia, https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Serbia%20First/Republic_of_Serbia.pdf.

While obstacles remain, Western Balkan economies have made progress towards harmonising their legal and regulatory frameworks with the EU Internal Energy Market, particularly in deregulating wholesale and retail energy markets. Since signing the Energy Community Treaty in 2005, Western Balkan governments have made significant progress towards establishing a competitive and integrated electricity market. With the exception of Bosnia and Herzegovina, and Serbia, the economies have transposed most EU legislation related to establishing an independent transmissions systems operator (TSO) and independent distribution systems (Table 14.3). Remaining obstacles in unbundling tend to be with functional implementation. In Serbia, for example, while the distribution system operator is legally unbundled, functional unbundling requires government approval of amendments to the founding act of the distribution system operator.

Table 14.3. Unbundling and deregulation in Western Balkan economies

	Independent transmission systems operator	Independent distribution systems operator	Deregulation of wholesale market	Creation of day-ahead market	Deregulation of retail market	Market coupling
Albania	●	●	●	●	●	●
Bosnia and Herzegovina	●	●	●	●	●	●
Kosovo	●	●	●	●	●	●
Montenegro	●	●	●	●	●	●
North Macedonia	●	●	●	●	●	●
Serbia	●	●	●	●	●	●

Notes: Green = in place. Orange = in progress. Red = limited progress.
Source: Energy Community (2021[23]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021.html; Energy Community (2020[12]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021/reports.html; Energy Community (2021[11]), WB6 Energy Transition Tracker, https://www.energy-community.org/regionalinitiatives/WB6/Tracker.html.

Western Balkan economies have accelerated their establishment of day-ahead markets, a prerequisite for market coupling and for connecting the region's small electricity markets into a competitive regional one. Serbia's South East European Power Exchange (SEEPEX) has already been operational for five years; with the exception of Bosnia and Herzegovina, other economies in the region are close to setting up day-ahead markets. In June 2021, ALPEX (the Albanian power exchange company) launched a new tender for a service provider of a day-ahead and intraday market platform in Albania and Kosovo. North Macedonia also recently launched a tender (closed in July 2021) for the provision of a day-ahead trading platform (Energy Community Secretariat, 2021[11]). In 2020, day-ahead market price and electricity prices for industrial customers (not counting taxes and levies) converged to equivalent prices in the EU while household prices remained below 50% of the EU average. The Clean Energy Package, and reciprocal application of the capacity allocation and congestion management (CACM) regulation (Box 14.6), provide the foundation for a legally binding framework for market coupling. It would be important to adopt such a framework as soon as possible (Energy Community Secretariat, 2021[23]; Energy Community Secretariat, 2021[11]).

Box 14.6. Capacity allocation and congestion management

The CACM regulation (EU Regulation 2015/1222) is a core piece of legislation for the single market in electricity in that it sets out minimum harmonised rules for eventual coupling of single day-ahead and intraday markets. Its purpose is to provide a clear legal framework for an efficient and modern CACM system, facilitating Union-wide trade in electricity. CACM provides the legal foundation for designating nominated electricity market operators (NEMOs), outlines their activities related to market coupling and provides a framework for their co-operation with TSOs. NEMOs are designated entities that run day-ahead and intra-day electricity markets.

Source: European Commission (2015[49]), "Establishing a guideline on capacity allocation and congestion management", *Official Journal of the European Union*, COMMISSION REGULATION (EU) 2015/1222 of 24 July 2015, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R1222&from=EN.

Significant challenges remain, however, with implementation, capacity and political interference in energy markets

Overall, progress on transposing legal and regulatory frameworks contrasts with low levels of implementation and enforcement, as well as the limited capacity of Western Balkans institutions to manage the transition. Factors that limit the rate of implementation include the diversity of economy-wide markets and the ability of Western Balkan governments to address key challenges in their domestic markets. That includes aforementioned market structures that may not favour competition, such as vertical and horizontal concentration by SOEs, limited access to guaranteed primary energy supplies, differences in investment strategies and/or priorities, and below-cost pricing policies. Political tensions among Western Balkan economies have also constrained regional energy co-operation (World Bank, 2018[16]).

Western Balkan governments have frequently adopted energy and environmental legislation that later is only partially enforced. Examples include the previously mentioned lack of compliance with air quality standards and with integrated prevention and pollution control (IPPC) permits,[4] poor enforcement of European state-aid rules pertinent to coal subsidies, and slow progress in establishing fully integrated and competitive electricity markets – and, to some extent, gas markets (CEE Bankwatch Network, 2020[50]; Energy Community Secretariat, 2020[12]). Strategic documents for a low-carbon transition often languish without being implemented. National institutions in Western Balkan economies rarely sanction this lack of enforcement, or breaches of adopted energy and environment legislation.

Political interference, particularly in SOE governance, plays an important role in **the slow pace of reform.** Evidence suggests that white-collar corruption and rent-seeking inhibit attempts to reform SOEs, as do clientelist relationships among SOEs, ruling political parties and industrial lobbies. There is insufficient application of the corporate governance principles of separation of ownership, policymaking and oversight (World Bank, 2018[16]). Similarly, despite progress towards regulatory independence, extensive political interference remains a persistent obstacle to the full independence of regulatory authorities (European Commission, 2020[51]).

Even in economies in which the legal framework governing the activities of the energy regulator is in line with the *acquis*, the regulator may lack *de facto* independence or adequate authority. Albania's Energy Regulatory Authority (ERE), for example, lacks the right to impose measures that promote competition, to require transmission and distribution system operators to change their terms and conditions, and to raise the level of penalties it can impose. In another example, North Macedonia's government has challenged the Energy Regulatory Commission's independence to define prices for the

universal electricity supplier. Other Western Balkan governments are similarly hesitant to provide their energy regulators with full independence (Energy Community Secretariat, 2020[12]).

Lack of institutional capacity remains a challenge for regulatory authorities across the region. Lack of capacity, including qualified human resources, is a challenge for both energy regulatory authorities and environmental inspectorates. In turn, this poses challenges for effective enforcement of energy and environmental regulation. Although the Energy Agency of the Republic of Serbia (AERS) is legally and functionally independent, its staff capabilities remain insufficient to implement regulatory responsibilities under the Third Energy Package and newer elements of the *acquis* (European Commission, 2020[52]). To date, AERS has been unable to enforce the unbundling and certification of network operators or third-party gas access (Energy Community Secretariat, 2020[12]).

As Western Balkan governments do not perform regulatory performance reviews, the region lacks a comprehensive analysis of the current capabilities of regulatory institutions. A core premise of EU energy legislation is the assumption that competitive internal energy markets cannot exist without independent regulators who ensure application of the rules. Table 14.4 provides an overview of some of the most common challenges for energy regulators in the Western Balkans.

Table 14.4. Strengthening regulatory institutions

Challenges of energy regulators across Western Balkan economies

	Regulator	Independence of regulator	Sufficient human and financial resources	Regulator is actively enforcing Third Energy Package	Specific challenges
Albania	Energy Regulatory Entity (ERE)	●	●	●	ERE does not have right to impose measures to promote competition or to raise the level of penalties that can be imposed
Bosnia and Herzegovina	State Electricity Regulatory Commission (SERC)	●	N/A	●	SERC does not comply with the Third Energy Package requirement for a single regulatory authority for electricity and gas
Kosovo	Energy Regulatory Office	●	N/A	●	Energy Regulatory Office faces difficulties in decision making as board members whose mandates expired were not replaced by new members
Montenegro	Energy and Water Regulatory Authority	●	N/A	N/A	Possible penalty levels that Energy and Water Regulatory Authority can apply are significantly below the required 10% threshold
North Macedonia	Energy Regulatory Commission	●	●	N/A	Energy Regulatory Commission chairman currently assumes the position of the Energy Community Regulatory Board president
Serbia	Energy Agency of the Republic of Serbia	●	●	●	AERS does not have a track record for enforcing compliance of companies with Serbian and Energy Community law

Note: Green = in place. Orange = in progress. Red = limited progress.
Source: Energy Community Secretariat (2020[12]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2020.html; Energy Community Secretariat (2021[23]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021.html.

14.2. Creating a credible vision and laying the institutional foundation for the transition towards low-carbon energy

Building on the peer-learning process of this Multi-dimensional Review, this and following sections explore priorities for action (Box 14.2). The recommendations and suggestions aim to address the challenges outlined in the previous section, drawing on insights from experts and practitioners from across the region, as well as relevant experiences from elsewhere.

Adopting credible NECPs emerged from the peer-learning process as the top priority for the region's energy transition, hoping that they will serve as fulcrums for action (Box 14.2). NECPs are part of the Clean Energy for All Europeans package adopted in 2019.[5] This package aims to establish a new energy rulebook, to move away from fossil fuels towards cleaner energy and to deliver on the EU's commitments for reducing GHG emissions under the COP21 Paris Agreement. NECPs address energy efficiency, renewables, GHG emissions reductions, interconnections, and research and innovation (European Commission, 2021[53]). Western Balkan economies are at different stages of the process of developing NECPs, North Macedonia and Albania being the most advanced (Table 14.5).

Table 14.5. Western Balkan economies' progress varies in preparing NECPs

Western Balkan economies' progress in preparing and adopting NECPs

	Legal basis adopted	Working group operational	Modelling capacity exists	Policy section drafted	Analytical section drafted	Submitted to the Secretariat for peer review	Final version submitted to the Secretariat
Albania	●	●	●	●	●	●	●
Bosnia and Herzegovina	●	●	●	●	●	●	●
Kosovo	●	●	●	●	●	●	●
Montenegro	●	●	●	●	●	●	●
North Macedonia	●	●	●	●	●	●	●
Serbia	●	●	●	●	●	●	●

Note: Green = in place. Orange = in progress. Red = limited progress.
Source: Energy Community Secretariat (2021[11]), WB6 Energy Transition Tracker, www.energy-community.org/regionalinitiatives/WB6/Tracker.html; Energy Community Secretariat (2021[23]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021.html.

To fully play their role, NECPs must provide the basis for a convincing, credible vision that addresses key challenges. Alternatives must be put in place to allow for the decommissioning of coal. Subsidy regimes must be reduced and energy efficiency investments prioritised. Renewables will have to play a much larger role in the energy mix, which imposes infrastructure needs, such as more flexible electricity systems and plants (operating on natural gas) that can be fired or ramped up quickly, as well as more regionally integrated electricity markets that enhance flexibility. All of this will imply higher energy and electricity prices, as well as job reductions in coal-dependent industries, which will need a social policy response. Last but certainly not least, investors must be able to trust in the direction of momentum and the rules to be applied.

A credible vision would need to recognise that, whereas intermittent renewables are a key part of the solution in the Western Balkans, baseload capacity is also required. The question of how to replace coal fired baseload in the region remains unresolved (see Section 14.3.1). Policy makers need to address - up front – the challenge of either converting or replacing existing coal-fired plants to serve as

sources of baseload. Aside from natural gas, few existing technologies offer cleaner options for baseload in the region.

Large capital investments are needed to either convert or replace existing coal plants with cleaner alternatives. Energy infrastructure requires large up-front investments, amortised over several decades. This holds true for converting or replacing existing coal plant with natural gas fired plants and for creating a transport infrastructure for natural gas (see Section 14.7). For less mature baseload technologies, such as deep geothermal energy, capital costs will be higher at least until these technologies mature.

A credible vision would need to strike a balance between radically strengthening regional integration, and to retain control of domestic energy supply. This is no different from the priorities of other European countries; few countries wish to be entirely reliant on energy imports. Until cleaner options are available for implementing a minimum level of low-carbon domestic energy production, coal fired plants are likely to remain the norm for this role in the Western Balkans.

Defining a holistic approach to the role of energy sector within the fiscal structure of each economy is necessary; this approach would need to be clearly communicated to citizens. While current energy subsidy regimes in the Western Balkan economies reduce energy costs for citizens, they come at an enormous fiscal cost – 1% to 6% of GDP. In turn, this significantly reduces the ability of governments to provide other services to citizens. Citizens will need to be convinced that more efficient, means-tested ways of reducing energy costs will strengthen provision of services.

Governments will need to ensure that energy reform brings clarity and cohesiveness to the body of existing laws, plans and strategies. All Western Balkan economies have either adopted or drafted a low-carbon development strategy. However, these often remain at odds with other frameworks, such as energy strategies that allow for building new coal rather than phasing it out (as in the case of some economies in the region such as Kosovo). Most National Energy Efficiency Action Plans and Renewables Development Strategies (except for North Macedonia and Serbia) are outdated and have not been updated or replaced by new strategic documents (Table 14.6).

Table 14.6. The strategic and legislative frameworks on energy and climate in Western Balkan economies remain incomplete

Strategic documents in Western Balkan economies

	Energy strategy	Low-carbon development strategy	Climate change law	Energy efficiency strategy	Renewables development strategy
Albania	National Energy Strategy 2018-2030	National Climate Change Strategy (endorsed in 2019)	Law on Climate Change (adopted in December 2020)	National Energy Efficiency Action Plan expired in 2020	National Action Plan for Renewable Energy Resources in Albania 2019-2021
Bosnia and Herzegovina	Framework Energy Strategy 2035	Climate Change Adaptation and Low Emissions Growth Strategy 2025	-	Action Plan for Energy Efficiency of Bosnia and Herzegovina 2019-2021 (NEEAP BiH) (final draft)	National Renewable Energy Action Plan 2020
Kosovo	Energy Strategy 2017-2028	Climate Change Strategy 2019–2028 and Action Plan on Climate Change 2019 - 2021 (approved)	-	National Energy Efficiency Action Plan (NEEAP) 2019–2021 (draft)	National Renewable Energy Action Plan (NREAP 2011–2020)
North Macedonia	Energy Development Strategy 2030	Long-term Strategy on Climate Action and National Action Plan on Climate Change (drafts)	Law on Climate Action (draft)	Fourth National Energy Efficiency Action Plan (NEEAP) (adopted)	Renewable Energy Action Plan Until 2025

	Energy strategy	Low-carbon development strategy	Climate change law	Energy efficiency strategy	Renewables development strategy
Serbia	Energy Sector Development Strategy for the Period by 2025; Energy Development Strategy 2040 (drafting ongoing)	Draft low carbon development strategy	Law on Climate Change (adopted in 2021)	Fourth National Energy Efficiency Action Plan (NEEAP) (until 2021) (adopted)	National Renewable Energy Action Plan 2020 (adopted in 2013)

Notes: Green = document has been approved and is still valid. Dark green = document is still valid but requires revision and/or update. Orange = draft document exists but has not yet been approved. Red = document expired.
Source: Authors' elaboration based on latest strategic documents on energy and climate in Western Balkan economies.

For a credible transition, Western Balkan governments will need to reform or eliminate policies and practices that work against deregulation and liberalisation. Western Balkan economies have implemented many of the formal structures of a deregulated, liberalised and regionally integrated energy market. In reality, entrenched policies and practices often hinder full implementation of these market reforms. Importantly, unbundling, third-party access and market liberalisation are unlikely to be effective as long as incumbent state-owned utility companies continue to have production costs covered by different forms of subsidies that allow them to sell energy below cost.

14.2.1. Broad consultation is a vital steppingstone towards establishing a credible vision and roadmap

A broad and inclusive public consultation process can help ensure that a vision is well designed and widely accepted by society. A good vision should secure buy-in from governments, citizens, the private sector and civil society alike, and should help generate motivation for climate action. Participatory dialogue with all stakeholders in society combined with investment in new skills and qualifications is also crucial to ensure that there is a "just transition" and that nobody is left behind in this process. Western Balkan governments have committed to adopt and implement relevant EU energy and climate legislation, including energy efficiency, renewable energy and climate targets. However, regional and local consultations have played only a limited role in the process and more can be done. The EU's own consultative process towards the EU Green Deal could serve as an example for developing and securing support for such a vision (Box 14.7).

Broad participation remains to be further developed across the region. At present, the private sector is not sufficiently included in energy and climate policy making in Western Balkan economies or in the design and adoption of strategic documents, including NECPs. Fora for public-private dialogue exist in some economies such as the National Economic Council (NEC) in Albania, the National Council of Economic Development of Kosovo (NCED) and the National Council for Sustainable Development in North Macedonia. However, these institutions tend to discuss a variety of topics rather than dealing exclusively with energy and climate policies. They also lack visibility (Green Development Republic of North Macedonia, 2018[54]; NCED, 2019[55]; UNECE, 2019[56]; Varfi, 2015[57]).

Representatives of civil society and academia are rarely included in these fora or are underrepresented. An exception is North Macedonia, where the National Coordinative Body for collaboration with civil society organisations (comprising more than 100 CSOs) is active in the field of environmental protection and is consulted regularly by the Ministry of Environment and Physical Planning.[6] There is a lack of public consultations on strategic documents and legislation on energy and climate policies, including the development of NECPs, and public consultations lack visibility and impact.

Parliaments could also play a more proactive role. To date, parliaments are often not sufficiently consulted and involved in decision-making processes related to energy and climate, such as the

development and adoption of NECPs and setting targets for emissions reduction and climate neutrality. As a consequence, such policies and documents risk not being based on a sufficiently broad consensus of all stakeholders and having a lack of public support.

Full implementation of the Aarhus convention could improve public consultations and the role of civil society in a green recovery. The United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters (Aarhus Convention) was adopted on 25 June 1998 in the Danish city of Aarhus (Århus) at the Fourth Environment for Europe Ministerial Conference. It aims at empowering the role of citizens and civil society organisations in environmental matters. The Aarhus Convention establishes a number of rights for individuals and civil society organisations with regard to the environment (UNECE, 2021[58]). The Aarhus convention has been ratified by all Western Balkan economies, except Kosovo.

A credible vision must be based on a bottom up approach. Such a vision should start with commitments made at the city and municipality level. 76 cities in the five Western Balkan economies have already joined the Global Convent of Mayors for Climate and Energy (five in Albania, 49 in Bosnia and Herzegovina, five in North Macedonia, three in Kosovo and 14 in Serbia). The Global Convent of Mayors for Climate and Energy is a global coalition of city leaders, established in 2016, seeking to address climate change through local action at the city level and by pledging to cut GHG emissions at the city level (Global Convent of Mayors for Climate and Energy, n.d.[59]).

Box 14.7. An inclusive vision and strategy for climate neutrality in the European Union

The European Commission set (in November 2018) a strategic vision for a climate-neutral European Union, presenting (in December 2019) the European Green Deal (EGD), which commits the EU to climate neutrality by 2050. Following an EU-wide debate on the vision, all 27 member states committed to the EGD, which was written into law through the European Climate Law (in July 2021). The EGD and the EU Climate Law aim to reduce net GHG emissions by at least 55% by 2030 (compared to 1990 levels) and to make Europe's economy and society climate-neutral by 2050.

In preparation for the above actions, the EU organised (in July 2018) a high-level stakeholder consultation on its long-term strategy for GHG emissions reduction in accordance with the Paris Agreement. Some 1 000 stakeholders from business, academia and civil society attended a two-day consultation event organised by the European Commission to gather inputs. Subsequently, the EU opened a public consultation period (17 July to October 2018), welcoming contributions from all citizens and stakeholders. More than 2 800 contributions were received. Another high-level public conference was organised (in January 2020) to provide further opportunity for open, public stakeholder debate on the European Climate Law before its finalisation and adoption.

Source: European Commission (2021[60]), 2050 Long-Term Strategy, https://ec.europa.eu/clima/eu-action/climate-strategies-targets/2050-long-term-strategy_en; European Commission (2021[61]),Delivering the European Green Deal, https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en#key-steps; European Commission (2021[62]), European Climate Law, https://ec.europa.eu/clima/eu-action/european-green-deal/european-climate-law_en.

14.2.2. Raising awareness and teaching environmental education

Raising awareness and helping citizens become involved is an important pillar for achieving a credible vision for the low-carbon transition in the Western Balkans. Public campaigns on climate change and the advantages of renewables and energy efficiency could improve public awareness of these topics in Western Balkan economies. Communication campaigns at economy-wide and local levels should be organised to target specific groups on specific issues such as the benefits of heat pumps over fuel

wood. Low-income households, youth and women are particularly important target groups. Energy, climate and environment issues also need to be more present in the media. Bosnia and Herzegovina already organises informational-motivational public campaigns on energy efficiency and renewable energies, financed by the Federation of Bosnia and Herzegovina's Environmental Protection Fund and Republika Srpska's Environmental Protection and Energy Efficiency Fund (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2017[63]). In Kosovo, the Kosovo Green Festival has been organised annually since 2016. Originally established by USAID, it is now led by the private sector. The festival allows local companies to display their green products and services, mainly related to renewable energies, energy efficiency and recycling. The largest green energy event in Kosovo, the festival makes important contributions to raising awareness on the benefits of renewable energies, energy efficiency and recycling (USAID, 2021[64]). Public campaigns on energy efficiency, including educational activities for the public sector, have also been organised in Serbia in 2021-22.**To raise awareness and help citizens get involved in the low-carbon transition, beyond public campaigns, it is important to inform citizens and organisations about the specific costs of pollution and benefits of a clean energy transition for them.** For example, parents and caregivers should be informed about the impacts of air pollution on their children's health and life-long development (this could, for example, be done by health care practitioners). Public officials should be informed about the necessity and benefits of biodiversity and healthy ecosystems. Cities and municipalities need to be made aware of the economic costs of not adapting to climate change.

Improved teacher training on energy, climate and environmental education and better incorporation of these topics in school curricula could contribute to emphasizing the climate transition in schools. It is important to better incorporate energy, climate and environmental education in both primary and secondary school curricula. In parallel, teacher training – both initial teacher education (ITE) and continuous professional development (CPD) – on these topics needs to be improved. Continuous and regular training for teachers is required in order to keep teachers informed about the latest technological and scientific developments. At present, CPD for teachers is limited in many Western Balkan economies (Meha, Idrizi and Sjediu, 2019[65]).

14.2.3. Building institutional capacity and tackling political interference

To deliver on commitments, Western Balkan economies require both GHG inventories and effective GHG reporting, monitoring and verification mechanisms. Currently, only Montenegro has an effective up-to-date GHG inventory. Western Balkan economies either completely lack GHG reporting, monitoring and verification mechanism (Albania, Kosovo, Serbia, Bosnia and Herzegovina) or face challenges in effective management of existing mechanisms (North Macedonia). GHG inventories and GHG reporting, monitoring and verification mechanisms are both prerequisites for the development, implementation and monitoring of NECPs and for meeting GHG emissions reduction targets.

Government co-ordination and co-operation in energy and climate policy making needs to be improved. Effective energy and climate policy making, including for GHG emissions reduction, cannot rely solely on energy and environment ministries. It requires effective co-ordination and collaboration across all parts of governments and must be taken into account and integrated in finance, labour, taxation, transport, industry and agriculture policies (IEA, 2021[66]). The responsibilities of different institutions and sectors in meeting energy and climate targets need to be clearly defined.

Establishing an independent body for energy and climate policy making and co-ordination is one option. Western Balkan economies should consider establishing a Green Deal Council (or similar independent body) for energy and climate policy making and co-ordination, for organising public consultations and dialogue with stakeholders, and to inform and inspire nation-wide debate on such policies. The UK's Climate Change Committee (CCC) is an example of such an entity. Established under the UK's Climate Change Act of 2008, the CCC is an independent, statuary body tasked with advising the

government and citizens on emissions reduction targets and reporting to parliament on progress in GHG emissions reduction and adaptation to climate change impacts. To ensure that bodies for energy and climate policymaking and co-ordination in Western Balkan economies have an impact, they must have sufficient political backing and visibility.

It would also be important to develop a system for regular monitoring and evaluation of implementation and compliance with energy, climate and environmental legislation. Such a system should include appropriate monitoring indicators and sanctions for non-compliance. Improving intra-institutional collaboration and co-ordination between government institutions and collaboration with civil society is key for successful monitoring and evaluation of implementation and compliance with energy, climate and environmental legislation. There is also a need to increase transparency by developing open access to key data such as supply, demand and transmission data.

To set the agenda for energy policy, Western Balkan governments need to strengthen energy regulators, while curbing the power of SOEs. As long as SOEs have the *de facto* last word on energy policy, energy sector reforms will remain incomplete. Fully functional liberalised energy markets require that regulators have the authority and capacity to enforce regulations vis-à-vis SOEs and other market participants. There is a need to strengthen regulatory authorities through training and capacity building, and legislating reporting requirements that aid decision-making.

Ensuring that energy sector regulators are entirely independent, vested with full authority to regulate market participants, and have the resources to do so is critical. Western Balkan governments need to ensure that regulators have the ability, as well as financial and human resources to implement their mandate. The independence of regulators is needed to be sure they are insulated from formal and/or informal exercise of political power designed to affect their decisions.

Deregulation and market liberalisation should be accompanied by measures to protect vulnerable customers (Energy Community Regulatory Board, 2020[67]). Protection of vulnerable energy consumers is embedded in the EGD. As an example, in the UK, suppliers and electricity distribution companies are required to maintain a Priority Service Register (PSR) for vulnerable customers while gas distribution companies must set up and maintain practices and procedures to identify domestic customers who may be eligible for additional services (Ofgem, 2019[68]).

14.2.4. Addressing the employment challenge associated with decarbonising the energy sector

Phasing out coal and fossil fuel subsidies in the Western Balkans is likely to result in job losses and social challenges that must be managed. Across five of the six Western Balkan economies (Albania does not have coal production), the coal industry employs more than 30 000 people. The majority – over two-thirds – work in open-pit coal mining and the remainder in power plants. While this is a small share of the 14.5 million people living in the five economies, mining and TPPs have for decades been the dominant employment options in regions that depend on coal (CEE Bankwatch Network, 2020[10]). Many small companies in those regions also depend directly on these industries, for example through links to supply chains of coalmines and TPPs. Almost half of coal-related employment in the Western Balkans is located in the Kolubara and Kostolac regions of Serbia (around 16 500 workers), followed by Bosnia and Herzegovina (Table 14.7).

Table 14.7. Coal regions and cantons in the Western Balkans

Region or canton	Contracting party
Kostolac region, Kolubara region, Obrenovac region, Pomoravlje region	Serbia
Tuzla canton, Srednjobosanski canton, Zeničko-Dobojski canton, Ugljevik region, Gacko region	Bosnia and Herzegovina
Bitola region, Kičevo region	North Macedonia
Prishtina region	Kosovo
Pljevlja region	Montenegro

Source : Authors' elaboration based on information from fact-finding in the Western Balkan region from expert consultants from CENER21.

The number of jobs in the coal and traditional power sector is already declining. In Serbia, more than 3 000 jobs disappeared in the Kolubara mining basin between 2017 and 2019; in the Kostolac mining area, the number fell from 2 000 in 2009 to about 1 500 in 2019 – despite new mines opening and increased production capacity. In Montenegro, the number of mineworkers has plunged by nearly half, from 1 200 in 2010 to 670 in 2019 (CEE Bankwatch Network, 2020[10]).

International experience shows that combining re-skilling programmes with financial compensation for coal workers is an effective policy option. Other countries may provide useful experiences with regard to handling the socio-economic consequences of phasing out coal (Box 14.8). A key takeaway is that re-skilling programmes show much better long-term results than simple payments. Possible job and training categories that correspond with the skills of former miners and workers include thermal retrofitting in the buildings sector, or other relevant jobs in construction and manufacturing.

A drive for renewable energy and energy efficiency promises to offer new employment opportunities. Compared to oil and gas sector investments, renewables and energy efficiency investments are more labour-intensive, and tend to be located closer to consumers. As such, the employment creation potential is estimated to be between 2.5 to 4 times larger for energy efficiency and 2.5 to 3 times for renewable energy (enervis, 2021[69]). This job potential could be tapped to offer new opportunities in current mining regions. In that process, the "Just Transition Plans" for Greece, Poland and Bulgaria, developed by the World Wildlife Fund (WWF)'s Regions Beyond Coal initiative – roadmaps for achieving a just transition through transforming coal regions and creating new, sustainable employment opportunities – could serve as inspiration for Western Balkan economies (WWF - Regions Beyond Coal, 2022[70]).

The Initiative for Coal Regions in Transition in the Western Balkans and Ukraine could support Western Balkan economies in tackling social challenges and job losses as a consequence of phasing out coal and mine closures. The Initiative for Coal Regions in Transition in the Western Balkans and Ukraine (launched in December 2020) aims to help economies and regions phase out coal to advance towards carbon-neutrality – while ensuring this transition is just. The initiative will deliver technical and financial support to coal regions in EU neighbouring economies, namely Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia and Ukraine. It is managed by the European Commission and six collaborating international partners[7] (European Commission, 2021[71]). The initiative aims at providing an open platform that allows for region-wide, multi-stakeholder dialogue; as well as sharing of experiences, knowledge and best practices on transition-related issues.

Box 14.8. Managing the transition away from coal in Poland and Germany: The importance of retraining support and stakeholder consultation processes

Poland: Re-skilling to avoid unemployment

The closure and decommissioning of coal mines in Poland has posed socio-economic challenges. Workers in the mining sector tend to have similar levels of education as those in manufacturing and construction but enjoy considerably higher wages and other benefits and special privileges, such as early retirement. Mineworkers enjoy high social status in their communities, and are often the only source of income of their families. As such, these workers have a lot to lose from mine closures.

Experience from Poland shows that compensation and re-skilling programmes for coalminers are key to avoiding a rise in unemployment and other social challenges – and that pure compensation programmes can backfire. Poland's coal labour restructuring programme, which lasted from 1998 to 2002, offered early retirement to approximately 37 000 miners, with 30 000 being offered a single, unconditional redundancy payment equivalent to 24 months of salary (the "golden handshake"). The restructuring programme, in particular the golden handshake was largely a failure as it resulted in a large number of inactive and jobless miners. Those who opted for the compensation often spent the lump-sum payment on large consumption goods and assets (e.g. new cars) but then had difficulty finding new jobs. A much smaller group (419 miners) opted for monthly redundancy payments for a duration of two years, in combination with assistance for retraining and in seeking alternative employment. They fared much better in the longer run. Having learnt from this experience, when setting up (in 2018) programmes for thermal retrofitting of buildings and small-scale PV solar, Poland sought to create new jobs for miners.

Germany: Retraining and relocation support, embedded in a stakeholder consultation process

The OECD peer review of Germany's phasing out of support to coal considered workforce retraining and relocation efforts that accompanied production wind-down to be of particular interest. A strong emphasis on retraining younger workers for relocation meant that mine closures did not lead to any lay-offs – despite greater risk of unemployment stemming from the very specific nature of the skill set of underground manual labourers. The absence of lay-offs greatly boosted social acceptability of the reform.

For the transition more broadly, Germany conducted a series of industry stakeholder meetings over several years to plan the scale-back of industry. This approach played an important role in engendering industry acceptance of capacity adjustment. The meetings determined the schedule and sequencing for mine closures and defined worker benefits, ultimately overseeing formal adoption of the phase-out process into law as a way to promote certainty and foresight on proposed outlays.

Source: Szpor (2021[72]), Public policies for restructuring the coal sector - Polish case study, Presentation made at the OECD; OECD/IEA (2021[73]), Update on recent progress in reform of inefficient fuel subsidies that encourage wasteful consumption, https://www.oecd.org/fossil-fuels/publicationsandfurtherreading/OECD-IEA-G20-Fossil-Fuel-Subsidies-Reform-Update-2021.pdf; Szpor (2021[74]), Coal transition in Poland.

14.3. Boosting renewables

Increasing the share of modern renewables in the energy supply requires market-based support mechanisms for both large-scale projects and self-consumers. The potential of wind and solar power remains largely untapped in the Western Balkans. While hydropower has a dominant role in renewable energy action plans, and receives a substantial share of incentives for renewables (e.g. feed-in tariffs), wind and solar energy are, so far, subordinate. Moving to market-based support mechanisms for renewables, by replacing FiTs with auctions, is a key component for scaling-up cost-competitive renewable energy sources. Establishing day-ahead and balancing energy markets is also key for successfully integrating renewable energy. In parallel, uptake of rooftop PV systems (still largely neglected throughout the region) could be boosted through improved support mechanisms for self-consumers.

14.3.1. Making electricity systems more flexible, including through flexible baseload capacity, to support integration of renewable energy

Electricity production from renewables is variable and requires new approaches to system balancing. Unlike power plants that continuously generate electricity from controlled burning processes, or geothermal energy, electricity from wind and solar depends on weather and daylight conditions. As such energy is not continuously available, it cannot be dispatched at will. Fluctuations in electricity demand compound this challenge, as fluctuations in renewables supply and electricity demand do not always correspond (Pommeret and Schubert, 2019[75]). This disconnect means the generation system as a whole must be able to adjust production quickly in response to large fluctuations in electricity supplied from renewables (REKK Foundation, 2019[76]).

Current electricity systems in the Western Balkans lack the flexibility and baseload capacity to support a significantly increased share of renewables. The region's coal-fired TPPs are largely outdated and slow to shut down and restart. In addition, intraregional trade in electricity remains limited. Albania is the only economy to make significant use of exports and imports for balancing its hydropowered electricity supply, which is sensitive to the availability of water resources and rainfall, both of which are highly variable. North Macedonia is the region's only economy with a significant share of flexible natural gas in its electricity mix (16.3%) (Eurostat, 2021[14]). A regional study should be carried out to provide clear paths for baseload replacement, reflecting alternative options and economy interests (Box 14.9).

Box 14.9. How to replace baseload capacity?

The Western Balkan region has not resolved the challenge of how to replace the baseload provided by coal-fired power plants with energy from cleaner sources. Even if the Western Balkan economies were to succeed in broad-based and rapid development of clean-energy sources, which is unlikely in the short to medium term, the challenge would still remain of deploying sufficient baseload to complement intermittent energy sources. If coal-fired power plants were no longer to provide baseload, the Western Balkan region would need to produce this baseload locally from cleaner sources, or baseload capacity would need to be imported. Both alternatives imply very significant challenges:

Western Balkan economies could import baseload, but the necessary conditions are not in place. In theory, the Western Balkan region could import all its baseload capacity from EU countries with a stable electricity supply from non-fossil sources. This option assumes that i) EU countries have sufficient clean baseload capacity for export; ii) Western Balkan economies are comfortable with relying on imports for their baseload and therefore energy security; iii) Western Balkan economies are willing and able to assume the costs and balance of payments challenges associated with importing their baseload, or Western Balkan economies can cover these costs by exporting equivalent amounts of

renewable energy. Currently, none of these three conditions necessarily holds. Many EU countries remain challenged to replace their own baseload, as they substitute fossil fuels with intermittent renewable energy sources. Further, Western Balkan economies may not be comfortable with relying on imports for their energy security, and costs of importing baseload may be prohibitive.

Alternatively, Western Balkan economies would have to produce baseload locally, with technology remaining a challenge. In principle, Western Balkan economies could produce less polluting baseload by converting their coal-fired power plants to natural gas. However, the EU's position on natural gas does not necessarily support financing for coal-to-gas conversion, and the recent instability in natural gas markets demonstrates that high reliance on natural gas can be costly. The region currently has no plans for coal to gas conversion (although North Macedonia's energy strategy refers to conversion of the oil-fired Negotino plant to gas). Similarly, nuclear power is unlikely to become an alternative to expand baseload capacity in the Western Balkans. Hydrogen produced from renewable energy and stored for baseload could in theory be an option, but remains costly and, compared to electricity, has high efficiency losses when produced by electrolysis. Batteries for complementing intermittent renewable energy sources remain costly, and still have limited storage capacity. Geothermal energy is currently an option only in regions with geothermal activity close to the earth's surface. Although it is technically possible to exploit geothermal energy in nearly any location on earth, costs remain a challenge.

Source: Authors' elaboration.

In the context of a regional solution for boosting renewables, Albania could serve as a "battery" of clean baseload. The most immediately feasible option to provide clean baseload in the Western Balkans may be a regional solution in which the hydropower potential of Albania (the only economy with significant reservoir capacity) provides energy storage services. To enhance this battery potential, Albania's natural hydroelectric capacity could be supplemented with pumped hydro.

In the longer run, improved natural gas supply and infrastructure could be one option for altering the energy mix and baseload capacity in the Western Balkans, but comes with its own challenges. Quickly dispatchable power from gas-fired plants could possibly replace – in a much more flexible form – the baseload capacity currently provided by coal (Energy Community Secretariat, 2021[11]; REKK Foundation, 2019[76]). However, natural gas reduces emissions relative to coal by only 50% when producing electricity and by 33% when providing heat (IEA, 2019[77]). Moreover, significantly increasing the use of natural gas would require large investments in new pipelines and associated infrastructure, especially as care would have to be taken not to create over-dependence on a single supplier. The Trans-Adriatic Pipeline (TAP) has been operational since 2020, bringing 10-20 billion cubic meters per year (bcm/yr) from Azerbaijan (through Greece and Albania to Italy) via the Trans-Anatolian Natural Gas Pipeline. Completion of the TAP enables the potential construction of the proposed Ionian Adriatic Pipeline (IAP) from Albania (through Montenegro and Bosnia and Herzegovina) to Croatia, which would bring gas to the Adriatic part of the Western Balkans. The IAP is currently on the Energy Community's list of Projects of Mutual Interest (PMI), which means it may benefit from streamlined permitting, regulatory incentives, cross-border cost allocation procedures and funding under the EU's Instrument for Pre-Accession Assistance and the Neighbourhood Investment Facility.

Modern biomass could offer another baseload alternative, particularly in Serbia, Bosnia and Herzegovina and Montenegro. Large tracts of abandoned land could represent an opportunity to establish energy plantations. As forestry management and biomass production from wood require skills similar to those needed in mining, this could be a means to employ jobless coal miners. Diligent spatial planning and stringent environmental policies are required to guarantee the sustainability of biomass, to prevent excessive logging and deforestation, and to facilitate cultivation of energy crops on arable land.

Also, reforestation efforts are required to increase forest productivity in the region. If mismanaged, biomass production for energy purposes can threaten biodiversity, water supply, food production and emission reduction goals. A carbon tax could help ensure that the positive effects of modern biomass outweigh the negative ones. Finland's experience in advanced combined heat and power (CHP) production plants and integrated forest management could provide an example (IRENA, 2018[78]).

Flexible electricity systems would need more interconnections and a reinforced grid with storage solutions. Improved interconnection with neighbouring economies would allow for balancing through export and import. However, it would be important to make better use of existing interconnectors in the Western Balkan region before building new ones. In parallel, to absorb large volumes of electricity generated from renewables, the region's T&D grids need to be modernised and combined with storage. Strategic planning of energy storage (including through electric vehicles [EVs]) and demand-response policies could make the region's electricity systems more flexible. Germany, Norway and the United Kingdom are among the European leaders in terms of establishing energy storage facilities (Data Europa EU, 2021[79]).

14.3.2. Creating liquid and competitive balancing markets and a regional certification system for renewables

Balancing markets must be liquid and competitive. Incorporating a large share of highly variable and intermittent renewable sources in the electricity mixes of Western Balkan economies will increase system balancing needs. As such, liquid, well-functioning and competitive intra-day balancing markets are a key ingredient for a low-carbon transition (Box 14.10) (Energy Community Secretariat, 2021[11]).

At present, Western Balkan economies have deregulated balancing markets, but they remain dominated by incumbents. To prevent dominant players from exercising market power, Western Balkan economies have pursued deregulation – with the exception of balancing capacity in Montenegro and Serbia. Procurement of balancing services is done in a market-based procedure in all Western Balkan economies. Price caps still apply, except in Albania and Kosovo. However, despite having established market-based balancing models, incumbent generation companies continue to be the dominant – or even the only – balancing service providers in domestic markets (Energy Community Secretariat, 2021[11]). Further liberalising balancing markets would lead to in a higher number of market participants, resulting in lower electricity prices in the long run.

Cross-border balancing co-operation could enhance competition and liquidity in balancing markets and improve their functioning, thereby reducing end-user electricity prices in the long run. The TSOs of Albania and Kosovo already signed an agreement to establish a common control block and are in the process of creating one integrated market for frequency restoration reserve (FRR). Bosnia and Herzegovina has started to establish an integrated market in the control block with Slovenia and Croatia. The TSOs of Serbia, Montenegro and North Macedonia have not yet started such processes (Energy Community Secretariat, 2021[11]). Closer regional co-ordination could improve the liquidity and stability of balancing markets, increase diversity of trade partners and create opportunities for trade of variable renewables amongst neighbouring systems.

Once liquid intraday markets have been established, it would be important to ensure that renewable producers are responsible for balancing. According to EU State Aid Guidelines, renewable producers with an installed capacity above 500 kW have full balancing responsibility (i.e. ensuring supply meets demand) once a liquid intraday market exists. Since liquid intraday balancing markets have not yet been established in Western Balkan economies, renewable energy producers in the region remain exempted from balancing responsibility. Most Western Balkan economies have introduced the balancing responsibility for renewable producers in legal frameworks, but the provision is not yet fully operational and effective (Energy Community Secretariat, 2021[11]).[8]

Box 14.10. The role of day-ahead and intraday electricity markets

Day-ahead and intraday electricity markets are short-term electricity markets. An intraday electricity market refers to continuous buying and selling of power at a power exchange that takes place on the same day as the power delivery. A day-ahead electricity market refers to the trading of electricity for the following day in a power exchange. A less frequently used term for day-ahead trading is auction market.

Power exchanges are entities providing a competitive spot market for electric power trading on day-ahead or intraday organised market places. In terms of electricity trading, organised market places complement bilateral contracting, often called Over-the-Counter markets (OTC). At present, Serbia's South East European Power Exchange (SEEPEX) in Belgrad, which is operating a day-ahead market, is the only operational power exchange in the Western Balkan region.

Short-term markets (day-ahead and intraday) play a key role in mobilising the flexibility of the power system, and how they are designed has effects on the cost-effectiveness of integration of renewables. These markets allow all actors to re-optimise and re-balance their portfolio close to real-time with minimal variable renewable energy forecast errors. These markets are also essential for the integration of power systems over large market areas. Prices constitute the references against which other medium- and long-term prices are set, and they motivate participants both in the short and long run.

Source: Energy Community (2020[80]), Electricity market functions – short overview and description, https://energy-community.org/dam/jcr:ce2c5ded-112c-4a6b-9ddc-45a5de7cf5fc/Elearning_EL_market_032020.pdf; IEA (2022[81]), Market and system operation, https://www.iea.org/reports/introduction-to-system-integration-of-renewables/market-and-system-operation; Next (n.d.[82]), Knowledge Hub, https://www.next-kraftwerke.be/en/knowledge-hub/.

An efficient, regional certification system for renewable energy, compatible with the EU system, would help market development and future integration with EU energy markets. Such a certification system would allow guarantees of origin[9] to be issued and traded among Western Balkan economies, and could be a first step towards integration with the EU certification systems and energy markets. At present, only Serbia has implemented an electronic system for the issue, transfer and cancelation of guarantees of origin; Montenegro is in the process of developing one (Energy Community Secretariat, 2020[12]; Energy Community Secretariat, 2020[83]). The Energy Community Secretariat is supporting Western Balkan economies in the development of a regional system of guarantees of origin through the project "Regional system of guarantees of origin in the Energy Community" launched in early 2022.

14.3.3. Moving towards market-based support schemes for renewables

Western Balkan economies are gradually introducing market-based support mechanisms for renewables. Market-based support mechanisms such as renewable auctions and FiPs can improve transparency in the selection of investors for renewable projects, ultimately helping to bring down prices and reduce government costs for paying subsidies. Currently, FiTs exist in all regional economies, but some are gradually phasing them out or maintaining them only for small renewable producers. This is the case in Albania, which shifted to auctions for large producers (The Assembly of the Republic of Albania, 2017[84]; Energy Community Secretariat, 2020[12]). North Macedonia uses both FiTs and FiPs, and has been conducting renewable energy auctions since 2019 (Energy Community Secretariat, 2021[11]). Serbia adopted a Law on the Use of Renewable Energy Sources in 2021, which introduces auctions for large-scale projects but maintains FiTs for small renewable producers (Energy Community Secretariat, 2021[11]). Kosovo, and Bosnia and Herzegovina, have already adopted the legislative framework for auctions but not operationalised those yet. To date, none of the Western Balkan economies has established renewable quotas or a long-term auction schedule (Table 14.8).

At present, demand tends to outstrip incentives available for solar and wind. Given the lack of fully market-based support mechanisms and past preference for hydropower, the number of investors interested in solar and wind has been found to be higher than available incentives in Western Balkan economies, for example in Serbia and Bosnia and Herzegovina (CEE Bankwatch Network, 2019[22]).

Table 14.8. Western Balkan economies are in the process of improving renewable support schemes and implementing market-based support mechanisms

Renewable energy support mechanisms in Western Balkan economies

	Feed-in tariffs	Support scheme for self-consumers (net-metering or net-billing)	Definition of a market-based support mechanism	Operational entity in charge of implementing auctions	Auctions
Albania	●	●	●	●	●
Bosnia and Herzegovina	●	●	●	●	●
Kosovo	●	●	●	●	●
Montenegro	●	●	●	●	●
North Macedonia	●	●	●	●	●
Serbia	●	●	●	●	●

Note: Green = in place. Orange = in progress. Red = limited progress.
Source: Authors' elaboration based on Energy Community Secretariat (2020[12]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2020.html; Energy Community Secretariat (2021[23]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021.html; Energy Community Secretariat (2021[11]), WB6 Energy Transition Tracker, https://www.energy-community.org/regionalinitiatives/WB6/Tracker.html.

Well-functioning, day-ahead electricity markets are a key prerequisite for market-based support mechanisms for renewables (Box 14.11). To fully operationalise market-based support mechanisms, in particular, sliding premium systems, day-ahead electricity markets are required. This would allow market participants to know the market price, and how much premium needs to be paid to top it up to the agreed amount (CEE Bankwatch Network, 2019[22]). At present, the Serbian power exchange (SEEPEX) is the only operational day-ahead market in the region (Energy Community Secretariat, 2021[11]) (see Section 14.1.5). In the long run, well-functioning day-ahead markets could result in lower end-user electricity prices (Energy Community Regulatory Board, 2020[67]).

14.3.4. To promote installation of solar and wind power, it would be helpful to simplify the investment process and support both self-consumption and larger renewable energy projects

Self-consumption, particularly from photovoltaic installations, remains in its infancy in the region, but must play an increasingly important role in the region's energy transition. Self-consumers or "prosumers" are households that produce energy for their own consumption, while also feeding into and buying from the grid. Expanding self-consumption can mobilise significant solar power supply and provide additional income opportunities for households, especially in rural areas. However, so far installed renewable capacities by self-consumers remain negligible in the region, with 119 registered self-consumers in Kosovo, 42 in North Macedonia, 6 in Montenegro, 1 in Bosnia and Herzegovina and none in both Albania and Serbia (amounting to an installed capacity of 2.5 MW in total by the end of 2020).

The up-front costs of renewable energy infrastructure and artificially low electricity prices for households restrain self-consumers. Subsidised electricity prices for households in most Western Balkan economies (except Albania), discourage households from investing in solar PV rooftop systems and becoming self-consumers to reduce their electricity bills. At the same time, the up-front investment required - while associated revenues accumulate slowly – discourages investments in renewable energies.

Support schemes for self-consumers are in place across the region, but have scope for improvement. Net-metering and, preferably, net-billing schemes provide the basis for connecting rooftop PV power to the grid and enabling its economic use case. Such schemes exist in Albania, Kosovo and North Macedonia, and Serbia recently introduced the secondary legislation for such a scheme based on its Law on the Use of Renewable Energy Sources. At present, Albania's support scheme for self-consumers is not fully operational. Scope exists to improve Kosovo's support scheme for self-consumers by extending eligibility to more consumers and replacing net-metering with net-billing (Table 14.8).

The public often lacks awareness of the benefits of renewable energy and of relevant support schemes for self-consumers. This lack of awareness prevents renewable self-consumption from reaching its full potential (Energy Community Secretariat, 2021[11]).

In practice, connecting with the grid and feeding-in remains time-consuming, complex and cumbersome. Administrative procedures for authorisation, permitting and licensing to invest in renewables, for both self-consumers and large-scale projects, typically involve several procedures across multiple institutions and tend to be complex, cumbersome and time-consuming. Information on investment procedures is not always easily available. In Kosovo, it can take up to three years to execute the procedure, from getting preliminary authorisation for a renewable project to obtaining final authorisation and connection to the grid (E3 Analytics, 2020[85]; Energy Community Secretariat, 2020[12]; Ministry of Economic Development, 2020[86]). Similarly, in North Macedonia, procedures for land usage approval and obtaining construction permits for larger scale renewable projects can be slow. In Serbia, connecting rooftop PV systems to the grid is cumbersome and time-consuming, with information on the procedure being difficult to obtain (Energy Community Secretariat, 2021[11]). In Bosnia and Herzegovina, the procedure for installing renewables for self-consumption involves multiple institutions, several steps and a large amount of documentation; here again, detailed information on the procedure is not available.

One-stop shops could simplify, streamline and accelerate administrative procedures for investment in renewables. Improving processes and removing unnecessary administrative burdens and taxation could encourage more investment, particularly by self-consumers. One-stop shops could also improve co-ordination among the different institutions involved. Kosovo has adopted the legal basis for establishing such a one-stop shop, but has not yet established and operationalised it (Energy Community Secretariat, 2020[12]). Albania adopted the legal basis for a simplified procedure for investing in renewables for self-consumption, but has not yet operationalised it. Improving the availability of information on procedures is vital, for example by publishing detailed information in accessible formats on government websites.

Promoting energy communities is another way to facilitate collective investment in renewables for self-consumption, particularly in multi-apartment buildings. In multi-apartment buildings, legal and regulatory barriers, lack of clear ownership structures, poor definition of responsibilities and complicated decision-making processes hamper renewable self-consumption (see also Section 14.4). Energy communities and co-operatives could allow households and apartment owners in multi-apartment buildings to jointly invest in renewables for self-consumption. Energy communities already exist in North Macedonia and Croatia (Box 14.11) (Energy Sector and Investment Monitoring Center, 2021[87]).

Box 14.11. Energy communities have spurred local investment in renewables in North Macedonia and Croatia

A municipality in Skopje launched a project to establish energy communities in 2020 in order to assist in the investment in, development, and use of renewable energy facilities. Through these energy communities, households and multi-apartment buildings can join together to invest in renewable energies (for example PV solar, wind and biomass) and become energy producers.

Croatia has eight local energy communities. In these communities, citizens, companies and municipalities in the same location jointly invest in renewable energies. They share both, risks and profits of their investments. Energy communities in Croatia are organised following democratic principles of decision making.

Source: Energy Sector and Investment Monitoring Center (2021[87]), National Energy Efficiency Portal, https://www.enu.hr/ee-u-hrvatskoj/tko-je-tko-ee-rh/energetske-zadruge/.

14.3.5. Generating knowledge and human capital for renewables

Western Balkan economies require solar cadastres that calculate the electricity production potential of each roof, and detailed data on grid capacities including load profiles of different parts of grids. Solar cadastres could help identify where the potential for electricity generation and self-consumption is highest, and where self-generated electricity can most easily be fed into the grid. Consuming electricity as close as possible to generation reduces T&D losses. Several municipalities in Europe have demonstrated effective procedures that promote uptake. The city of Lyon (France) has a solar cadastre that maps the potential for 10 000 roofs (Grand Lyon, n.d.[88]). To determine where the potential for distributed renewables is largest, the city of Salzburg (Austria) combined its solar cadastre with information on its electricity grid. Solar cadastres are also essential to effectively integrate renewable energy policies in urban planning.

More human capital with skills and expertise required for investment in renewables is needed in the Western Balkans. To build such capacity, Western Balkan economies need appropriate curricula on renewable energy at technical, vocational and tertiary institutions (E3 Analytics, 2020[85]; IRENA, 2021[89]). There are shortages of skilled workers for installation, maintenance and quality assurance, in particular of solar panels and wind power (E3 Analytics, 2020[85]; IRENA, 2021[89]).

14.4. Investing in energy efficiency

Enhancing energy efficiency in Western Balkan economies requires effective strategies for energy efficiency improvements, the mobilisation of sufficient financial resources and the development of less carbon-intensive heating systems. Western Balkan economies require comprehensive and widely accepted strategies for energy efficiency improvements, most importantly, in the building sector. In addition, there is a need for better incentives and frameworks to mobilise financing for energy efficiency improvements in buildings, including energy efficiency funds endowed with sufficient financial resources. The regulation for multi-apartment buildings, including the quorum for decision-making of homeowners associations and reserve funds, need to be reformed to facilitate energy efficiency improvements and rennovations in these buildings. The expansion of modernised district heating systems could replace inefficient heating devices. There is also a need to improve energy efficiency standards and energy efficiency skills in Western Balkan economies.

14.4.1. Designing effective strategic and institutional frameworks for efficiency improvements

Western Balkan economies require comprehensive and widely accepted strategies for energy efficiency, along with clear designation of institutions responsible for implementing relevant policies and appropriate accountability mechanisms. Existing EU directives (Box 14.12), a widely accepted, shared vision and broad consensus on a low-carbon transition are the basis for designing effective strategic and institutional frameworks. Effective energy efficiency strategies would further need to be aligned with broader urban planning, since both are closely linked and go hand in hand.

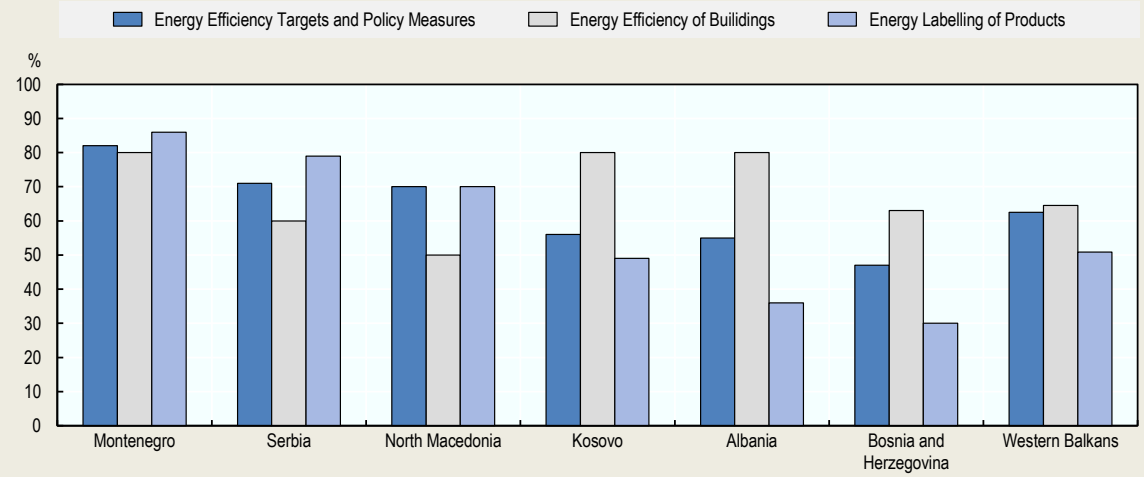
At present, most economies in the region have failed to designate and hold accountable specific institutions and actors to oversee energy efficiency improvements, including whether strategic documents are implemented and targets are met. As a result, energy efficiency policies are not centralised at one institution and often remain fragmented. A lack of co-ordination among the different actors involved in policy making and implementation is also problematic, as is the fact that institutions in charge of energy efficiency policies often lack financial and human resources.

Box 14.12. EU directives for energy efficiency must be applied in the Western Balkans

Through their membership in the Energy Community, Western Balkan economies are obliged to implement EU directives for energy efficiency, including the Energy Efficiency Directive (EED) (EED-2012/27/EU); the Directive on Energy Performance of Buildings (EPBD) (EPBD-2010/31/EU); and the Energy Labelling Directive (ELD) (ELD-2010/30/EU).[10] The EED's target is reducing energy consumption by 20% by 2020. It calls for legally binding measures to step up efforts to use energy more efficiently at all stages of the energy chain, from production to consumption. Examples of measures include (among others): establishing energy efficiency obligation schemes (or equivalent alternative measures); a 1% annual renovation obligation for central government buildings; promoting energy audits; promoting efficient heating and cooling; and measures to enable and develop demand response. The EPBD sets minimum energy performance requirements for new and existing buildings. To date, adoption and transposition of these directives remains a work in progress in the Western Balkan region (Figure 14.15).

Figure 14.15. Implementation of EU directives related to energy efficiency varies across Western Balkan economies

Progress in implementing EED, EPBD and ELD



Source: Energy Community Secretariat (2021[23]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021.html.

StatLink https://stat.link/35y09o

Source: WBIF (2016[90]), Financing Energy Efficiency Investments in the Western Balkans.

Energy efficiency laws have been put in place, but implementation lags. Energy efficiency legislation, including energy efficiency laws and laws on the energy performance of buildings, have been adopted in all Western Balkan economies. Actual implementation of these laws and adoption of secondary legislation has been slow. So far, none of the region's economies have adopted a building renovation strategy. Some (with the exception of Kosovo and Serbia) have established building inventories and building typologies, including a classification of existing buildings according to different characteristics and estimates of their energy consumption. Only North Macedonia has adopted an up-to-date energy efficiency action plan. Dedicated institutions for energy efficiency have been set up only in Albania and Kosovo. Several of the economies have established energy efficiency funds, but their financial resources and scope of activities remain limited (Table 14.9).

Table 14.9. Important gaps remain in legal and institutional frameworks for energy efficiency improvements in Western Balkan economies

Legal and institutional frameworks for energy efficiency in Western Balkan economies

	Legislative framework for energy efficiency	Dedicated institution for energy efficiency	Energy efficiency fund	Building renovation strategy	Building typology
Albania	Law on Energy Efficiency (2015); Law on the Energy Performance of Buildings (2016)	●	●	●	●
Kosovo	Law on Energy Efficiency (2018); Law on the Energy Performance of Buildings (2016)	●	●	●	●
Serbia	Law on Energy Efficiency and Rational Use of Energy (2021); Law on Housing and Maintenance of Buildings (2016)	●	●	●	●
North Macedonia	Law on Energy Efficiency (2020)	●	●	●	●
Bosnia and Herzegovina	Separate laws on energy efficiency in the FBiH and RS	●	●	●	●

Note: Green = in place. Orange = in progress. Red = limited progress.
Source: Authors' elaboration based on Energy Community Secretariat (2021[23]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2021.html; Energy Community Secretariat (2020[12]), Annual Implementation Report, https://www.energy-community.org/implementation/IR2020.html.

Scope exists to improve regulations and policies that support energy efficiency in the public sector, and to strengthen implementation of existing policies. The possibility to incorporate energy efficiency criteria in public procurement processes exists in legislation in most Western Balkan economies, but this is rarely done in practice. As yet, none of these economies has embarked on an energy efficiency programme through utility companies (World Bank, 2018[16]).

14.4.2. Introducing energy efficiency standards for heating, air conditioning and building renovation is a vital element; building a force of skilled workers is equally important

Energy efficiency standards for equipment and buildings can be an important tool to enhance energy efficiency. Up-to-date energy efficiency standards for heating and cooling systems in Western Balkan economies could prevent future proliferation of inefficient devices (European Commission, 2020[52]). Adopting energy efficiency standards and principles for regular maintenance and renovation of buildings would ensure that repairs and renovation include energy efficiency improvements (USAID, 2020[91]).

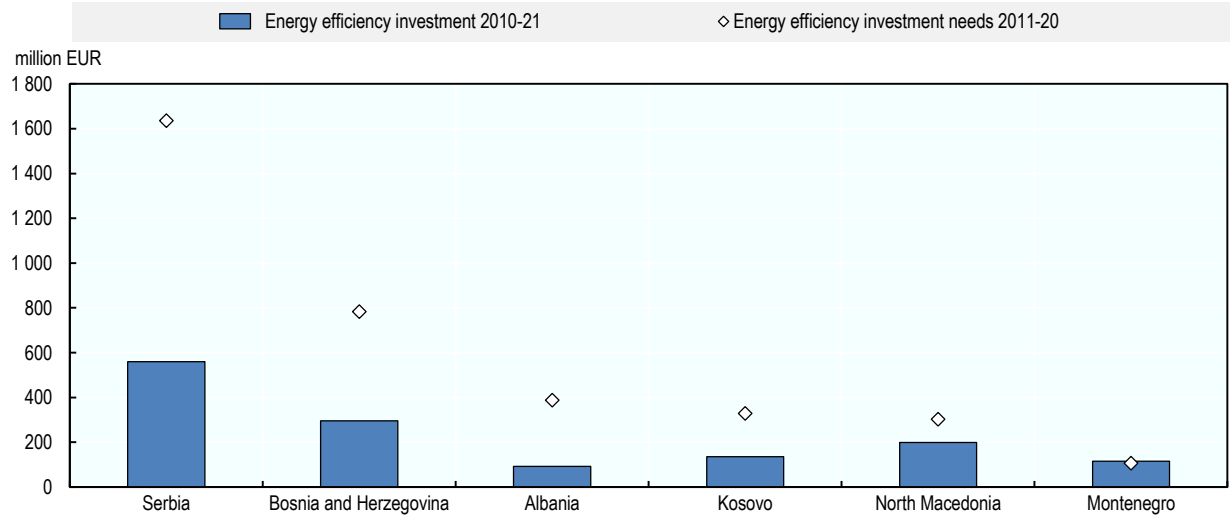
Standards can only be implemented where the necessary expertise is available. Policy and training options must focus on overcoming shortages in technical expertise related to energy efficiency improvements and skilled professionals such as energy auditors and managers. While some progress has been made in capacity building programmes for energy auditors and managers, these need to be broadened and carried out in a sustained manner (Energy Community Secretariat, 2021[11]). There may also be a need to train maintenance and renovation providers (USAID, 2020[91]).

14.4.3. Creating incentives and frameworks to mobilise financing for energy efficiency

The financing gap for energy efficiency in the region remains large; at present, budgets depend largely on donor support. Total investment needs for energy efficiency improvements in buildings in Western Balkan economies amounted to EUR 3.5 billion between 2011 and 2020; however, only EUR 1.4 billion of financing were secured between 2010 and 2021 (Energy Community Secretariat, 2021[11]). As such, the financing gap remains large across the region, with the exception of Montenegro (Figure 14.16). Within government budgets, financial resources devoted to energy efficiency improvements tend to be limited, leaving these economies very dependent on donor support.

Figure 14.16. Financing gaps for energy efficiency improvements remain large in most Western Balkan economies

Investment gap in energy efficiency across all building types



Source: Energy Community Secretariat (2021[11]), WB6 Energy Transition Tracker, https://www.energy-community.org/regionalinitiatives/WB6/Tracker.html.

StatLink https://stat.link/c06myi

Financing the purchase of energy efficient equipment or energy retrofits is also challenging for households, which face high costs and limited incentives. In relation to local salaries, energy efficiency investment costs are high. Financial incentives and subsidies for energy efficiency improvements generally cover only a very limited amount, and often depend on donor funding. These programmes (often focused on improved insulation and replacement of inefficient heating devices with more efficient ones) tend to remain fragmented and do not scale-up. In addition, subsidised electricity prices limit the incentive for households to invest in energy efficiency improvements and energy savings. As a result, privately financed energy efficiency improvements in buildings remain limited.

Little experience with this kind of investment means access to finance remains limited for energy efficiency projects. Financing from financial institutions for energy efficiency improvements remains difficult to access, and is often subject to high interest rates. This reflects the limited creditworthiness of many households, and the fact that many financial institutions lack knowledge and are unfamiliar with energy efficiency lending - and thus perceive such lending as risky (World Bank, 2018[16]).

There is a need to improve access to public financing for energy efficiency measures. Western Balkan economies should scale up financial incentives for energy efficiency improvements in buildings, particularly those directed towards vulnerable households. Programmes and associated financing should be implemented on a national scale to increase the pace of energy efficiency improvements, benefit from economies of scale and create markets for energy efficiency goods and services. Programmes should become self-sustaining in the long run and expand as markets develop. Western Balkan economies should also prioritise the use of public funds for energy efficiency measures in unserved markets (e.g. low-income households, less credit-worthy public entities such as poorer municipalities) through higher subsidy levels. Economies in the region should further operationalise and improve the scope of operations and functioning of existing energy efficiency funds. Those funds' low financial resources could be scaled up through revenues from environmental taxes, including a future carbon tax.

To mobilise private financing for energy efficiency improvements, Western Balkan economies could explore guarantee and regulatory options, such as energy efficiency service companies (ESCOs). Private financial institutions could be encouraged to increase energy efficiency lending through credit guarantees and other public support schemes. ESCOs, companies that deliver energy efficiency improvements financed through the cost savings derived from projects, are an effective option. Energy performance contracts commit ESCOs to install the necessary equipment, provide a performance guarantee, and establish the terms of up front and ongoing payments by customers. The energy service company (ESCO) model is based on calculations that the financial energy savings realised by the project will more than offset the cost (IEA, 2018[92]). To facilitate the development of ESCOs, Western Balkan economies should adopt and fully implement an appropriate legislative and regulatory framework. District heating companies could act as public ESCOs. As an example, Croatia started energy efficiency improvements of public buildings through ESCOs, with a pilot programme in 2012. Initial financing for the renovation of multi-apartment buildings was provided to ESCOs through the country's Environmental Protection and Energy Efficiency Fund (EPEEF). This pilot programme triggered significant levels of investment, lowered the administrative burden, and enabled the entry of new companies in the ESCO market (EBRD/Energy Community Secretariat, 2020[93]). Private investment in energy efficiency could be promoted by facilitating partnerships among businesses to support energy efficiency measures (see Box 14.13).

Box 14.13. Networking approaches can foster energy efficiency

Policies to support energy efficiency in businesses focus not only on individual companies but also aim to strengthen networking among them, in particular in the case of SMEs, as a means of overcoming size-related barriers. Various examples of such networking approaches exist, mostly financed by participating companies themselves:

Switzerland developed the Energy Model, supported by the Swiss energy agency, where participating companies collectively work towards energy saving objectives.

In Germany, the LEEN model (learning energy-efficiency networks) bring together 10-15 SMEs across sectors in a specific location to enhance cooperation and learning on energy efficiency steps.

Sweden set up the Hackfors model, where networks, co-ordinated by one of the firms, develop common and individual targets with respect to energy efficiency.

Source: OECD (2021[94]), "No net zero without SMEs: Exploring the key issues for greening SMEs and green entrepreneurship", *OECD SME and Entrepreneurship Papers*, No. 30, OECD Publishing, Paris, https://doi.org/10.1787/bab63915-en.

14.4.4. Making regulation of multi-apartment buildings and homeowners associations more conducive for energy efficiency investments

Multi-apartment buildings make up a large share of residential housing in the Western Balkans, much of which exhibits poor energy performance. Some 39% of residential buildings in these economies are multi-apartment buildings (Energy Community Secretariat, 2021[95]). Most were constructed in the 1960s to 1980s under obsolete building standards and have been poorly maintained: as such, their energy performance tends to be poor. Many occupants of such buildings lack awareness of the financial and other benefits of energy efficiency improvements, and are unwilling to invest in the maintenance of common areas or refurbishment of those buildings (USAID, 2020[91]).

Homeowner associations face cumbersome decision making, low funding and limited capacity. Within multi-apartment buildings, homeowner associations determine how common activities will be managed. Generally, the collective decision making requires either a two-thirds majority or even unanimous consent for some matters. In the case of energy efficiency improvements, support is often quite low. At the same time, reserve funds for such buildings are either non-existent, have very limited financial resources or have strict rules that such funds can be used only for regular maintenance expenditure but not for energy efficiency improvements and renovation. Many or most owners have low income levels. Enforcing the collection of regular maintenance fees from homeowners often proves difficult (hence the low reserve funds) and seeking additional funds is next to impossible. Further, homeowner associations lack the institutional capacities for managing, designing and implementing the complex investment projects required for renovation and energy efficiency improvements (USAID, 2020[91]).

Unsurprisingly, commercial banks in Western Balkan economies are reluctant to lend to homeowner associations. Because of the absence of collateral and a credit history, banks perceive homeowner associations as highly risky borrowers. The involvement of multiple individuals (members) in decision making and the complexities of collecting regular contributions from members for loan repayment are additional disincentives (Regional Environmental Center, 2016[96]; USAID, 2020[91]).

Reshaping the rules on decision making and fee collection for homeowner association can reduce the perceived risk level. The experience of reforms in the Slovak Republic (Box 14.14) shows that an effective regulatory framework for homeowner associations – based on ease of decision making and effective collection of fees – can improve their standing in relation to financial institutions. It is necessary to adjust the regulations for self-governance, the quorum required for decision making (including for the adoption of energy efficiency measures), create and manage functioning reserve funds, and secure collateral for loans. The collection of mandatory fees for energy efficiency improvements and renovation in reserve funds could increase the down payment available and serve as collateral, thereby increasing the creditworthiness of the homeowner associations.

Credit guarantees and technical assistance for homeowner associations could further support energy efficiency improvements in multi-apartment buildings. State credit guarantees could improve access to loans for homeowner associations in the short and medium term. Energy efficiency improvements in multi-apartment buildings could also be financed by ESCOs. In addition to improved access to financing, homeowner associations may require technical assistance and capacity building to design and implement energy efficiency improvements and to increase the confidence of commercial banks to lend to homeowner associations (USAID, 2020[91]).

Box 14.14. New regulatory framework in the Slovak Republic helped unlock bank funding for energy efficiency investments by homeowner associations

In the past, the Slovak Republic faced similar challenges in terms of financing to renovate multi-apartment buildings.

Strategic legal reform, and capacity building for homeowner associations, triggered the development of tailor-made loan products by nearly all commercial banks. Key success factors in the reform included: easier decision making of homeowners (50% plus one vote) and simple, effective rules for collecting fees, enforced through simplified court and collection procedures.

At present in the Slovak Republic, obligatory reserve funds for maintenance and repair are generally used as collateral for loans by homeowner associations; this is possible only because regular fee collection is enforced. Initially, in the transition period when reserve funds based on regular payments by homeowners were still in development, the government assisted with state guarantees to build confidence by financial institutions.

Source: USAID (2020[91]), Gap Analysis of The Housing Sector in Western Balkan Countries: Bosnia And Herzegovina, Kosovo, North Macedonia, and Serbia Vs. Slovak Republic, https://pdf.usaid.gov/pdf_docs/PA00X3QN.pdf.

14.4.5. Modernising and increasing access to district heating systems

District heating plays an important role in some parts of the Western Balkans. Such heating systems represent around 14% of total heat demand in the region, compared with about 10% for the EU[11] as a whole. It is particularly developed in Serbia, with 25% of households connected. In North Macedonia, Kosovo, and Bosnia and Herzegovina the share of households covered ranges from 6.7% to 12%. Albania and Montenegro have no district heating systems.[12]

Predominantly based on fossil fuels, district heating systems represent a challenge for the green transition in the Western Balkans. Existing systems in the region rely heavily on natural gas (67%), coal and/or lignite (21%), and petroleum products (9%). Systems in North Macedonia and Serbia rely largely on natural gas while coal is the main fuel in Kosovo and an important contributor in Bosnia and Herzegovina (where such systems are often fed by heat generated in power plants). Renewable energy, such as biomass and waste heat, represents only about 3% of total district heating production in the region (mainly in Bosnia and Herzegovina where biomass represents 25% of district heating) (Energy Community Secretariat, 2021[11]; Energy Community Secretariat, 2020[12]).

In their current configuration, district heating systems have high technical losses and billing provides no incentives for efficiency. Billing for district heating systems is often based on lump sums per square meter of heated space rather than on actual consumption. Some economies in the region, such as Kosovo and Serbia, have begun to renovate and decarbonise their district heating systems.

Modernised district heating systems could run on renewable energy and offer viable solutions for clean urban heat. Experiences from Sweden and Germany show that heat from renewable sources can be efficiently fed into district heating and become an important element of energy efficiency for buildings (IRENA, 2017[97]). To optimise existing district heating networks, Western Balkan economies should modernise them to incorporate clean energy, improve energy efficiency and reduce technical losses. Metering and billing should be based on actual consumption, to create incentives for households to adopt energy saving behaviours.

Incentivising installation of heat pumps and more efficient biomass stoves and boilers is an alternative in areas without access to district heating or the natural gas grid. Financial incentives

could promote the uptake of heat pumps to replace inefficient stoves and boilers used for heating in such areas. Where this option is not feasible, the adoption of more efficient biomass stoves and boilers and the use of upgraded biomass fuels such as wood chips, pellets and briquettes could also been encouraged.

14.5. Getting energy prices right through socially responsible carbon pricing and removal of subsidies

Public resources locked into coal subsidies, combined with below-cost low electricity prices, are arguably the most important policy hindrances to a low-carbon transition of the energy sector. Peer-learning participants identified ending coal subsidies among the top priorities across the Western Balkans region (Box 14.2). As discussed above, below-cost recovery tariffs, financed through a range of explicit and implicit subsidies, generate important costs for public sectors in the Western Balkan region. In parallel, continued "propping up" of inefficient coal-based SOEs is a major obstacle to moving the region onto a low-carbon pathway (Section 14.1.4).

To reduce the share of energy produced from lignite and coal, and the associated emissions and pollution, there is no alternative to removing subsidies and introducing carbon pricing. Scenario analysis shows that coal and lignite will persist in power generation and district heating, unless Western Balkan governments introduce carbon pricing and eliminate subsidies. Similarly, without realistic electricity prices that cover production costs and an appropriate carbon price,[13] development of natural gas and renewable energy sources will remain limited. The region's aged, inefficient and polluting fleet of coal and lignite plants would continue to be dominant. At present, uncertainties regarding the continued operation of these plants translate into reluctance to invest in their refurbishment. That, in turn, could threaten the security of energy supply (Kantor; E3M;, 2021[98]).

The region has committed to phasing out subsidies and introducing carbon pricing; to date, only Montenegro has introduced a carbon price. In the context of the EGD and the Sofia Declaration (Box 14.5), economies in the region have committed to phase out coal subsidies, align with the EU ETS and carbon pricing, and work with the EU towards the 2050 target of a carbon-neutral continent. So far, only **Montenegro has started recognising the cost of CO2 emissions, applying from 2020 a carbon price starting at EUR 24 /t CO2.** But about two-thirds of the emissions covered by the carbon price are exempted through free allowances (Energy Community Secretariat, 2021[11]). Some Western Balkan economies are planning the introduction of carbon pricing, such as Bosnia and Herzegovina which recently finalised a roadmap for the introduction of a carbon pricing scheme and emissions trading. Between 2016 and 2021, the EU ETS CO2 price increased 15-fold, from EUR 4.41 to over EUR 60 /t CO2; it is expected to average EUR 84 /t CO2 in 2022 and EUR 92 /t CO2 in 2023 (Reuters, 2022[99]). By not having to pay for CO2 emissions under the EU ETS, TPPs in the Western Balkans avoided costs of EUR 3 billion over the period 2016-20 (measured at the average EU ETS price) (Energy Community Secretariat, 2021[11]).

The EU's proposed Carbon Border Adjustment Mechanism makes action urgent. Over the period 2023-26, the EU will be phasing-in a carbon border tax for imports of energy-intensive products, initially including electricity, iron and steel, aluminium, fertilisers, and cement. This will expose Western Balkans economies to significantly higher trading costs, particularly given its high level of trade with the EU and the structure of its exports, which includes many on the energy-intensive list. In the case that phasing out subsidies and introducing carbon pricing does not happen soon enough to avoid the EU carbon border adjustment, governments in the Western Balkans would need to prepare contingency plans (Young, 2020[100]).

As social acceptance is important, energy price reform must include support for vulnerable households. According to definitions in individual Western Balkan economies, the share of vulnerable customers for electricity ranges from 2% in North Macedonia to 7% in Kosovo (Energy Community Secretariat, 2021[11]). Other sources indicate substantially higher levels of energy poverty in the Western

Balkan region than in EU countries. The EU Statistics on Income and Living Conditions (EU-SILC) show that 10% to 40% of Western Balkan households were unable to keep homes adequately warm in 2019 (Eurostat, 2021[101]). As removing fossil fuel subsidies and introducing carbon pricing are expected to negatively affect vulnerable households, appropriate policy measures will be needed.

14.5.1. Engaging in a sequential process of coal subsidy reform

Reforming coal subsidies requires a whole-of-economy approach and extensive evaluation. As the effects of fossil-fuel support typically spread far beyond the energy sector and its consumers, reform requires careful consideration of all desired changes and their potential adverse effects.

Four steps can help structure the reform effort and identify solutions that take account of those who stand to gain and those who will consider they have something to lose. Based on its global monitoring of fossil fuel subsidies, the OECD has developed a four-step reform process, each step of which can be tailored to fit economy contexts and underpin individual reform processes (OECD, 2021[102]). The framework proposes several analytical tools to facilitate each step, from identifying the most distorting government support measures to crafting alternative or complementary policies to mitigate any adverse impacts of reform. Including a full suite of assessments when designing reform measures should minimise the risk of political backlash that too often accompanies reform. The modular, sequential approach allows governments to undertake different steps in isolation, as they identify specific needs while building capacity to conduct analysis (Table 14.10).

Table 14.10. Four steps for a robust, sequential process to reform fossil fuel subsidies

Step	Objective
Identify support measures, document their objectives and estimate their budgetary costs	• Measure the cost to government of providing support for fossil fuels • Understand the objectives and intended beneficiaries of support measures
Measure the distortiveness of support measures, including their economic, social and environmental effects	Rank support measures by their level of distortiveness and fossil-fuel production, investment, consumption and CO2 emissions
Identify the winners and losers of fossil-fuel support reform processes	Analyse the distributional impact and other potential adverse effects of reforming support for fossil fuels
Evaluate alternative policies with better economic, environmental, fiscal or distributional outcomes	Identify policies that increase the efficiency and improve the distributional impact of government intervention

Source: OECD (2021[102]), OECD Companion to the Inventory of Support Measures for Fossil Fuels 2021, https://dx.doi.org/10.1787/e670c620-en.

14.5.2. Gradually introducing carbon pricing and auctioning of CO2 allowances in synch with market integration

Scenario analysis demonstrates that gradual introduction of carbon pricing combined with full market integration is most effective. Without the key benefit of market integration – i.e. cross-border sharing of balancing and reserves – governments undertaking wider reform would need to maintain domestic coal and lignite-based power production for baseload capacity. In turn, this would severely undermine development of renewable energy sources and the potential for new investments in natural gas. Additionally, market integration helps bring prices down through competition and optimisation of capacity use. By taking a gradual approach, with a transitional scheme during which different rates and timeframes for auctioning allowances apply, economies can accommodate different levels of flexibility to carbon pricing, smoothing the transition for emitters and consumers alike (Box 14.15) (Kantor; E3M;, 2021[98]).

A gradual introduction of carbon pricing would begin with emissions allowances, followed by domestic and regional trading, leading to full integration in the EU ETS (Table 14.11). Governments should consider cap-and-trade as the likely first and best policy option for introducing carbon pricing in power and district heating sectors. In turn, they should apply cap-and-trade in five stages. The usual first stage is to launch internal carbon pricing by emitters, involving issuance of internal certificates. This can then be expanded to include internal carbon pricing with introduction of trading at national level. Bilateral agreements between economies in the Energy Community can then facilitate cross-border trading. The fourth and fifth stages are adherence to the EU ETS under a transitional regime that allows for free allowances in parallel with auctioning, followed by full integration with the EU ETS and abolishment of free allowances (Kantor; E3M;, 2021[98]). Stable and reliable systems for monitoring, reporting and verification of GHG emissions are a pre-condition to implementing carbon pricing (Energy Community Secretariat, 2021[11]).

Table 14.11. Introduction of carbon pricing in Western Balkan should be done over several stages

Cap and trade policy stages

Stage 1: Internal carbon pricing – certificates
• Subject entities assign a carbon price to carbon emissions for all internal decisions for operations and investment • State allocates emissions allowances and provides a credit; otherwise emitters pay penalties to the state • Administered carbon price and no trade of allowances
Stage 2: Internal carbon pricing – trading at a national level
• National trade of allowances under bilateral transactions or within a market of allowances • State acts as a buyer and seller to balance the market and increase liquidity • The carbon price is market-based, but a carbon price floor is suggested to apply
Stage 3: Cross-border trade
• Cross-border trade of allowances based on bilateral agreements between economies • Reasonable pre-conditions included for financial transactions, market liquidity and transparency, and a level playing field • Allowances are still granted for free
Stage 4: Adherence to the EU ETS under a transitional regime
• Full trade of allowances within the EU ETS • Free allowances are possible during the transition period
Stage 5: Full integration in the EU ETS
• Free allowances abolished; all allowances auctioned

Source: Kantor; E3M (2021[98]), A carbon pricing design for the Energy Community - Final Report, https://www.energy-community.org/dam/jcr:82a4fc8b-c0b7-44e8-b699-0fd06ca9c74d/Kantor_carbon_012021.pdf.

Box 14.15. Carbon pricing design for the Energy Community – a scenario analysis

A recent Energy Community report provides a set of policy recommendations, based on scenario simulations combining full and gradual introduction of carbon pricing with either full regional market integration or continued fragmentation of markets. The results highlight the importance of market integration to protect welfare and enable expansion of renewable sources for electricity production. Modelling reveals a key insight. Full-on carbon pricing with full auctioning of allowances across the region as of 2025 would bring about the fastest phase-out of coal. A gradual approach, in contrast, would allow for smoother price development and the phasing-in of cap-and-trade so as to avoid management difficulties (Table 14.12).

Table 14.12. Four scenarios of carbon pricing and market integration

	Integrated markets	Fragmented markets
Full-on carbon pricing: full auctioning of allowances in all countries by 2025	• Full coal phase-out by 2030 possible • Heavy price increases, • Mitigated by market integration, which enables sharing balancing • Broad regional market encourages gas investments, making it available for balancing • Full auctioning of allowances by 2025 difficult to manage	• Abrupt price increases • Lack of shared balancing capacity → limited RES • Heavy emitters remain in service • Welfare loss • Difficult to manage
Gradual carbon pricing: auctioning of emission allowances starts in 2025, and then applies gradually, allowing for different rates and speeds according to each economy's specific circumstances	**Recommended scenario** • Price increases sufficiently gradual to be more effectively mitigated by market integration • Broad regional market encourages gas investments, making it available for balancing	• Lack of shared balancing capacity → limited RES • Heavy emitters remain in service • Welfare loss • Difficult to manage

Source: Authors' elaboration based on Energy Community/Kantor E3M (2021[98]), A carbon pricing design for the Energy Community - Final Report, https://www.energy-community.org/dam/jcr:82a4fc8b-c0b7-44e8-b699-0fd06ca9c74d/Kantor_carbon_012021.pdf.

These results suggest that pursuing full market integration is the best policy option. Because market integration enables cross-border balancing and local storage deployment, applying carbon pricing under this approach has potential to drive wind and solar development, particularly after 2030. Cross-border energy flows allow economies to access low-cost and low-carbon energy generation, as well as reserve and balancing resources. That, in turn, allows economies to diversify their energy mix, increase system resilience, attract investment for restructuring, and adjust their overall system to the introduction of carbon pricing. Market integration is also essential for further deployment of natural gas (as an alternative to coal and lignite) for provision of baseload at the regional level. Importantly, integration would allow investors to anticipate their returns on investment in natural gas supply capacity. Under these circumstances, gas could become a bridge fuel and play an important role for both balancing and integration of variable renewable energy sources.

In parallel, gradual introduction of carbon pricing is the best policy option. This implies co-ordinated adoption of carbon pricing among Energy Community contracting parties, as early as possible but under a transitional regime that supports different rates and timeframes for auctioning allowances. By taking a gradual approach, economies can accommodate different levels of flexibility to carbon pricing and smooth the transition for emitters and consumers alike. Gradual carbon pricing, as discussed here, assumes that auctioning of emission allowances starts in 2025 and then applies gradually, allowing for different rates and speeds according to each economy's specific circumstances. According to these projections, the combination of market integration with gradual carbon pricing is sufficient for enabling coal phase-out within in a reasonable timeframe.

Source: Energy Community/Kantor E3M (2021[98]), A carbon pricing design for the Energy Community - Final Report, https://www.energy-community.org/dam/jcr:82a4fc8b-c0b7-44e8-b699-0fd06ca9c74d/Kantor_carbon_012021.pdf.

14.5.3. Ensuring support for the energy poor as a core element of price reform

To support energy poor households efficiently, Western Balkan economies need to improve mechanisms to identify potential beneficiaries and increase coverage. By signing (in 2020) the Sofia Declaration, Western Balkan governments have committed to developing programmes to address energy poverty. The majority of economies in the region have defined vulnerable customers in legislation and have put in place measures for their protection. To identify beneficiaries, current energy support programmes generally build on existing social support programmes, with funds provided through government budgets. These programmes often have low coverage and suffer from implementation challenges, which means they sometimes do not reach those in need (Energy Community Secretariat, 2021[11]).

Means-tested support for vulnerable households is far less costly and more efficient than blanket subsidies for electricity prices. Fossil-fuel subsidies in the Western Balkans are not typically means-tested. As a result, they tend to benefit wealthier groups that consume more energy, while only a limited fraction benefits poor and economically disadvantaged groups. In Albania in 2018, only 22% of people in the lowest quintile were eligible for energy benefits – and only 16% of energy benefits accrued to such households (World Bank, 2018[16]). Instead of low electricity prices for everyone, subsidies should target those who struggle to afford electricity. Ukraine's Housing and Utility Subsidy (HUS), which was extended to a large number of vulnerable and poor households in the context of the removal of energy subsidies, provides an interesting example for Western Balkan economies (Box 14.16).

Governments should include measures to address energy poverty in the preparation of NECPs. Given the magnitude of energy poverty in the region, separate programmes and policy documents to eradicate it need to be developed at local national and regional levels. Governments should develop bottom-up plans through participatory and transparent approaches that align with local development plans. Means-tested support for vulnerable households could include income-based support, such as social benefits or vouchers for a monthly allowance of electricity consumption. Other options include support for energy efficiency improvements, such as low-carbon heating technologies and insulation of residential buildings. In addition to reducing household consumption and energy bills, this would offset the negative impact removing fossil fuel subsidies is likely to have on disposable income. In addition to helping the poor, such compensation can enhance the political acceptability of subsidy and carbon pricing reforms (OECD, 2020[103]).

Box 14.16. Successful energy subsidy reform combined with social assistance in Ukraine

Ukraine successfully increased energy prices and reduced energy subsidies in 2015-16. Up to 2014, as a consequence of important energy subsidies, Ukraine's residential gas and district heating tariffs were among the lowest in Europe while the country's average cost of gas supply was one of the highest. Ukraine's subsidies for natural gas and district heating were regressive and benefited larger, mainly richer household consumers. The average Ukrainian households used to pay around 20% of the full import price of gas. Only 13% of subsidies in gas and district heating tariffs benefited the bottom quintile of Ukraine's population. Below cost recovery tariffs resulted in a high fiscal burden and a shortage of financial resources to invest in gas and district heating infrastructure, leading to a gradual deterioration of the quality of gas and heating delivery.

Ukraine decided to raise heat and gas tariffs only when difficulties to pay the gas supplier resulted in severe gas supply shortages in the winter of 2014. As a consequence, residential gas tariffs increased by 470% and district heating tariffs by 193% between 2014 and 2016. In April 2016, Ukraine unified household and industrial natural gas tariffs and set them at the level of import parity. Gas tariff increases for households and district heating significantly improved the financial situation of the gas sector.

To compensate poor households and avoid social unrest, simultaneously to raising energy tariffs, Ukraine implemented social assistance measures for low-income housholds and launched a public campaign to communicate energy subsidy reforms. In 2014 and 2015, the government implemented social protection reforms to improve targetting of social assistance. Further, tariff increases were combined with additional social protection measures. As a result, the share of targeted assistance reaching low-income households increased. The number of households benefiting from the Housing and Utilities Subsidy (HUS) increased from approximabely 1 million to 6.5 million households in early 2017. In 2016, the HUS covered 40% of households at a total fiscal cost of around 2% of GDP (compared to 0.13% of GDP spent on the HUS in 2014). The public campaign encompassed measures such as materials and training guides for simplified social assistance programmes, strategic rebranding and outreach mechanisms to promote awareness on the HUS and trainings to improve the efficiency of local welfare offices.

Source: ESMAP (2017[104]), Energy Subsidy Reform Facility – Ukraine, https://documents1.worldbank.org/curated/en/884621506493335975/pdf/120076-26-9-2017-11-9-3-FINALESMAPCountryBriefUkraine.pdf.

14.5.4. Investing the revenues from carbon pricing for future readiness and buy-in

Welfare implications need to be taken into account when designing carbon pricing schemes. If introducing carbon taxes comes along with a reduction in other taxes, including those on labour and capital, this can stimulate job creation and investment. It can also improve economic efficiency, since carbon taxes are less distortionary than taxes on labour and capital (OECD, 2020[105]). Carbon pricing can also offer a source of public revenues that can be used to fund investment in clean technologies and mitigate negative effects of a carbon price for vulnerable populations.

Analysis of successful implementation of carbon taxes shows that several policy goals need to be considered in parallel. Carbon pricing pushes up electricity prices, which would negatively impact the competitiveness of export-oriented firms located in the Western Balkans (Muth, 2021[106]). Sweden, as a small, open economy with companies that could easily relocate, shielded export-oriented sectors from losses in competitiveness. When introducing its carbon tax in 1991, to provide these industries with predictability and time to adjust, Sweden taxed them at a lower rate than households and built several exemptions into the policy (Criqui, Jaccard and Sterner, 2019[107]).

To effectively recycle revenues from carbon pricing, it is important to consider the characteristics and challenges of each socio-economic system at a given point in time. Analysis by the Energy Community (Kantor; E3M;, 2021[98]), evaluates options for recycling carbon pricing revenue according to their economic performance and their social implications, using input-output multipliers to rank the different options (Table 14.13). A particularly interesting case is the “carbon-tax-and-dividend” scheme in the Canadian province British Columbia (Box 14.17).

Table 14.13. There are different options to use carbon-pricing revenues

Options to use carbon-pricing revenues

No	Option	Scope	Features / Expected performance	Selection of countries using the option
1	Lowering taxation	Private income tax, corporate tax, VAT, tax credits	An environmental tax or any tax that internalises an externality is considered less distortionary than other taxes. Lowering non-Pigouvian taxes can increase economic efficiency and rationalise the tax system. Attention should be given to whether the favoured activities align with overall environmental objectives.	Switzerland, British Columbia
2	Lowering labour costs	Social security contributions	Lowering labour costs is beneficial for both employment and boosting the competitiveness of firms. This option favours particularly labour-intensive industries.	UK, France
3	Increasing R&D spending	Clean energy technologies, energy efficiency projects	Subsidising R&D for clean energy technologies can lower their capital and transitional costs and provide comparative advantages to the industry.	Germany, UK, France, USA, Canada,
4	Lowering financial costs	Public debt, interest payments	Improving the debt profile of a country can lower interest rates and ease overall public financing.	Ireland
5	Supporting private income	Lump sum transfers to households	Direct income transfers can support low-income / vulnerable households. This demand-driven option usually has a minor impact on the economy as consumption concerns both domestically produced and imported goods.	Switzerland, France, USA
6	Providing rebates to trade	Subsidies or tax exemptions to protect trade-exposed sectors	Rebates to sectors that are carbon-intensive and open to trade can support their competitiveness.	UK

Source: Energy Community/Kantor E3M (2021[98]), A carbon pricing design for the Energy Community - Final Report, https://www.energy-community.org/dam/jcr:82a4fc8b-c0b7-44e8-b699-0fd06ca9c74d/Kantor_carbon_012021.pdf.

Box 14.17. Redistributing carbon tax revenues to citizens could contribute to creating the necessary public support for climate action

Canada's carbon-tax-and-dividend scheme

Canada has developed an innovative carbon-tax-and-dividend policy, pioneered in the Canadian province of British Columbia and subsequently extended to other provinces, which redistributes carbon tax revenues as a refundable tax credit to citizens. It intends to put a price on carbon and mobilise public support for it.

This approach applies a steep tax on carbon emissions. Tax revenues generated are redistributed to citizens on an equal lump sum basis, tilted in favour of the poor and those in less populated areas. The calculation reflects the socio-economic challenge that the poor emit less absolute carbon than the rich, but associated carbon taxes account for a higher share of their disposable income. For most citizens, the lump sum payment (dividend) typically more than compensates for the higher price of energy they face. In 2021, each family of four in rural Saskatchewan receives a refundable tax credit of about USD 1 100 from the Canadian government.

Source: Financial Times (2021[108]), How to save climate policy from culture wars, https://www.ft.com/content/25f0d270-f528-4789-b390-37ad7f9d091b?accessToken=zwAAAXzqlDVQkc8l8NJw9ShHidOzkDetf50JGw.MEYCIQCYAbPUZ-vBvi3t3ZoODm-d2ZYwbvEauyf93FyNvYHjWgIhANYRuMzNxSbNhqkw1mT2j3AJo7ByIiUkYIzw6aobs5vN&sharetype=gift?token=59a49564-7e87-458e-9b9.

14.6. Increasing cross-border energy trading for an integrated and competitive regional electricity market

An integrated and competitive regional electricity market would help with pricing, reliability, capacity utilisation and integration of renewables in the Western Balkans. Critically, a competitive regional market would increase efficiency in cross-border electricity trading and boost competition in electricity markets. In turn, this would lead to more efficient utilisation of electricity generation and storage facilities across the region – including across borders – thereby enabling balancing of generation surpluses and deficits. In creating capacity to better balance highly variable energy sources, regional integration of electricity markets could also facilitate a higher share of renewables in the region's electricity mix. In the long run, regional integration would result in lower electricity prices - thereby countering the removal of subsidies - improve the reliability of electricity supply and reduce the need for new generation facilities (Energy Community Regulatory Board, 2020[67]). Successful regional integration would not only include better interconnection but also power exchanges and price coupling (Energy Community Regulatory Board, 2020[67]).

Within the WB6 Initiative, or Berlin Process, Western Balkan governments committed to develop a regional electricity market. Through the Initiative, which seeks to seeks to facilitate investments and regional market development, Western Balkan economies committed (in 2014) to implement essential preconditions for a regional electricity market, notably: i) establish power exchanges; ii) set up a regional balancing market; and iii) allocate interconnection capacity regionally through the Coordinated Auction Office in Southeast Europe (SEE CAO).[14]

14.6.1. Focussing on net transfer capacity and optimising the use of existing interconnectors

The Western Balkan region has ample electricity interconnection capacity, a significant portion of which is largely underutilised. In all economies, the existing nominal transmission capacity of interconnectors is significantly higher than the installed generation capacity and system peak load. As such, they all satisfy the EU target of 10% net transfer capacity with respect to total production capacity (Energy Community Secretariat, 2021[11]). However, net transfer capacities[15] in these economies were less than 30% of nominal transmission capacities for a major part of 2020 – significantly below the EU minimum target of 70% for electricity interconnector capacity for cross-zonal trading. As a result, overall physical energy flows among the economies remain limited (Table 14.14). Strengthening energy transmission would have several benefits (Box 14.18).

Box 14.18. The rationale for strengthening energy transmission

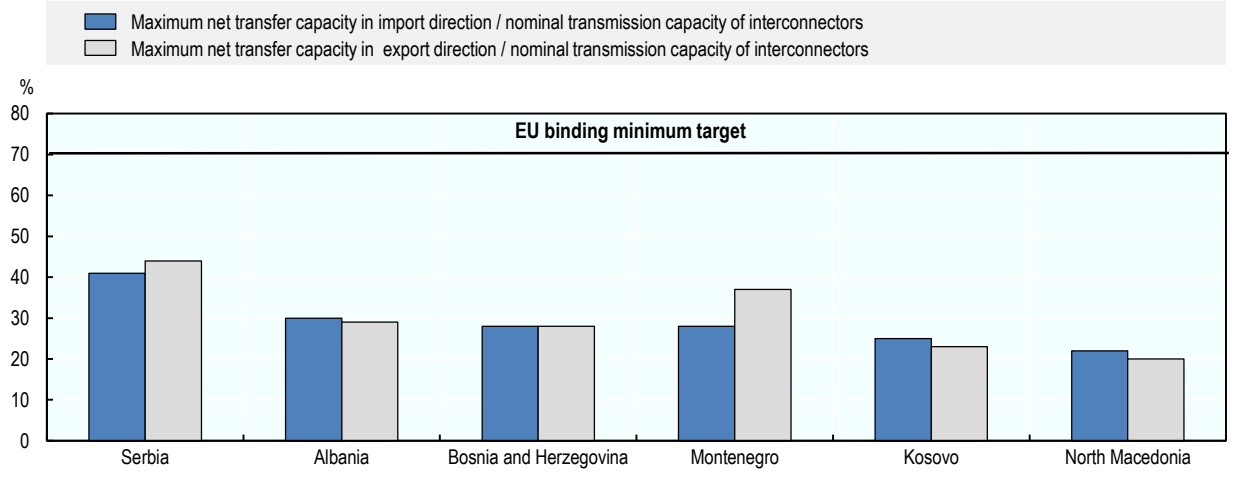
While security of supply is a strong rationale for enhancing electricity transmission systems, in the Western Balkans, the needs of a decarbonised future also play a vital role, due to the following issues:

- Larger areas with renewable energy sources will be connected; by smoothing the intermittency problem, this will reduce the need for balancing.
- Transmission capacity will be needed to provide grid connection of large-scale renewable sources (e.g. wind, solar and hydropower) that can benefit from economies of scale and ultimately deliver low-cost electricity to consumers.
- Sufficient transmission capacity can reduce dependence on fossil fuels for power production, thereby contributing to environmental protection and improve air quality.
- Sufficient transmission capacity enhances market competition, thus increasing economic welfare.
- Consumers benefit from improved security of supply.

Source: Energy Community Secretariat (2021[40]), Decarbonisation Roadmap for the Contracting Parties of the Energy Community, https://www.energy-community.org/events/2021/11/MC.html.

Figure 14.17. Utilisation of cross-border interconnectors remains low in Western Balkan economies

Maximum usage of cross-border interconnectors, 2020



Source: Energy Community Secretariat (2021[11]), WB6 Energy Transition Tracker, https://www.energy-community.org/regionalinitiatives/WB6/Tracker.html.

StatLink https://stat.link/9uysc1

Low utilisation and net transfer capacities limits potential for cross-border baseload and reflects low competition and market dominance. This situation has negative implications for decarbonisation as low net transfer capacities limit the potential for cross-border electricity exchange to serve as baseload that supports integration of renewables. It also undermines the potential to foster competition in electricity markets across borders (Energy Community Secretariat, 2021[11]). The low levels of exploitation of trans-border interconnectors in the region reflect a lack of competition in electricity and gas markets, given their domination by SOEs.

Table 14.14. Physical energy flows in GWh among Western Balkan economies, 2017

To/From	Albania	Bosnia and Herzegovina	Montenegro	North Macedonia	Serbia
Albania	-	-	149 (3.3% of Albania's electricity generation; 2.4% of electricity consumption)	-	258 (5.7% of Albanian electricity generation; 4.2% of electricity consumption)
Bosnia and Herzegovina	-	-	1 829 (11.1% of Bosnia and Herzegovina's electricity generation; 13.75% of electricity consumption)	-	499 (3.04% of Bosnia and Herzegovina's electricity generation; 3.75% of electricity consumption)
Montenegro	1 397 (56.26% of Montenegro's electricity generation; 45.06% of electricity consumption)	-	-	-	495 (19.94% of Montenegro's electricity generation; 15.96% of electricity consumption)
North Macedonia	-	-	-	-	508 (9.07% of North Macedonia's electricity generation; 7.7% of electricity consumption)
Serbia	313 (0.85% of Serbia's electricity generation; 0.95% of electricity consumption)	1 406 (3.81% of Serbia's electricity generation; 4.25% of electricity consumption)	1 353 (3.66% of Serbia's electricity generation; 4.09% of electricity consumption)	1 325 (3.59% of Serbia's electricity generation; 4% of electricity consumption)	-

Source: ENTSO-E (2020[109]), Power facts - Europe 2019, https://eepublicdownloads.entsoe.eu/clean-documents/Publications/ENTSO-E%20general%20publications/ENTSO-E_PowerFacts_2019.pdf.

To optimise capacity and investment, Western Balkan economies should focus on efficient usage of existing interconnectors, rather than on building new ones. National regulatory authorities, competition authorities and TSOs should build new cross-border connectors only where existing interconnectors are insufficient. To this end, before building any new cross-border projects, governments should implement cost-benefit analysis based on assumptions that existing interconnectors are fully utilised – and applying the highest possible net transfer capacity values in the calculations (Energy Community Secretariat, 2021[11]). As economies develop more renewable energy production capacity, the ratio between the interconnectors' nominal transmission capacity and installed renewables generation will also become critical.

By re-evaluating – and potentially increasing – net transfer capacity values at borders, Western Balkan economies can support the integration of renewables and the decarbonisation of electricity sectors. Net transfer capacity values at all borders should be calculated more frequently through co-ordinated processes – and potentially increased. Alternatively or in parallel, markets should be coupled to fully benefit from market competition. TSOs should identify critical network elements that restrict the net transfer capacity values and propose solutions to relieve internal bottlenecks. Governments can boost net transfer capacity values by reinforcing internal networks (where internal congestion limits the net transfer capacity) (Energy Community Secretariat, 2021[11]).

14.6.2. Advancing integration through market coupling and increased collaboration

Co-ordinated capacity calculation, as well as mechanisms to allocate and use this capacity, are important steps to creating efficient day-ahead and intraday markets. To advance regional integration, neighbouring control and market areas should be linked. In parallel, the Western Balkan bidding zone borders should be gradually integrated into EU capacity calculation regions.[16] Key elements of this process would be to define technical standards and institutional arrangements such as settlement and payment mechanisms and dispute resolution.

Other European countries provide useful examples of measures to enhance the efficiency of cross-border trade in electricity, while also optimising production costs and electricity prices. One example is the Price Coupling of Regions system (launched in 2010), followed by the market coupling of 15 European countries (in 2014) to create a harmonised single electricity market. Through the submarine interconnector Nord Link, which became operational in mid-2021, Germany and Norway have set up a mutually beneficial co-operation strategy: electricity surpluses from wind farms in Germany can be sold on the Norwegian market; in exchange, when there is little wind, Germany can draw on Norwegian hydropower (European Commission, 2021[110]; Tennet, 2021[111]).

Co-operation among electricity TSOs in the region and the application of directives from the Energy Community are a prerequisite for regional electricity market integration, while co-operation would support regional economies in the energy transition. Holding regular meetings is one way to enhance TSO co-operation in the region. Collaboration should also be enhanced between neighbouring economies, in activities such as training electrical engineers, R&D, sharing expertise on system operations and planning and establishing regional co-operation among national regulatory authorities. Strong political will and regional solidarity are both required to successfully integrate regional electricity markets.

Countries in the Baltic region provide an example of successful TSO co-operation. The Baltic power system is highly integrated in terms of interconnection (a heritage from the Soviet era) and system stability. Successful market integration at this level created a base to expand co-operation in the wider region. In September 2020, eight Baltic Sea countries (Latvia, Lithuania, Estonia, Denmark, Finland, Sweden Germany and Norway) signed a joint declaration to co-operate on and accelerate the build-out of offshore wind projects in the Baltic Sea. Through intensified joint work in offshore wind development, the collaboration aims to strengthen political, economic and technological integration of the region (European Commission, 2020[112]; Wind Europe, 2020[113]).

14.7. Mobilising financial resources for a green recovery

The Western Balkans transition to a low-carbon society will be capital-intensive. As these economies have not yet completed their NECPs (or similar documents) to define their transition goals, it is challenging to estimate the volume of financial resources needed to reduce the carbon intensity of the region as a whole. Nonetheless, various agencies have made estimates, with the World Bank calculating the following figures: USD 15 billion of investments is needed before 2035, with about USD 10 billion for generation, and USD 5 billion for T&D (in 2010 dollars) (World Bank, 2018[16]).

By economy, investments needs range (on average) from 0.1% to 0.5% of GDP, with the type of investment differing. One breakdown (Kantor; E3M;, 2021[98]) details investment requirements over the period 2020-40 across the Energy Community countries, including Western Balkan economies, under five different scenarios: i) baseline; ii) baseline with a carbon border adjustment tax; iii) carbon pricing with market fragmentation; iv) carbon pricing with market integration; and v) gradual carbon pricing with market integration. The last scenario, which the study recommends, suggests that economies adopt carbon pricing in a co-ordinated way, under a transitional regime that allows different rates and timeframes for applying

auctioning allowances. Under this scenario, investments are estimated to reach about EUR 800 million in each of Albania and Montenegro, while Serbia requires the largest investment -- EUR 3.8 billion.

Revenues from the elimination of below-cost tariffs, pricing carbon emissions and taxing polluters could potentially provide capital for public low-carbon investment. Eliminating fiscal losses from below-cost electricity tariffs would cancel about 70% of energy-related fiscal deficits, equivalent to 1% to 6% of GDP, depending on the economy. Reducing distribution and collection losses would capture the remaining 30% (World Bank, 2018[16]). Fiscal revenues from carbon pricing and taxes levied on polluters could be a source of revenue for public investment in low-carbon energy infrastructure. To ensure that revenues from carbon pricing are used for the energy transition, the introduction of carbon pricing should be accompanied by measures that foment transparency in the use of these revenues. In Québec, Canada, revenues from the emissions trading system are used to implement the Climate Change Action Plan, including measures designed to help the industrial sector become more innovative and energy efficient – and, thus, less carbon-intensive (Quebec Ministère de l'Environnement et de la Lutte contre les changements climatiques, 2021[114]).

Multilateral support will remain an important component of the financing required for to "build back better" from COVID-19 pandemic, and provide investment for a green recovery. Key initiatives include the European Commission's EUR 9 billion Economic and Investment Plan for the Western Balkans, the EU's Western Balkanas Guarantee Facility, the EBRD's Green Economy Financing Facility (GEFF) and the Platform Initiative for Western Balkans and Ukraine (Box 14.19).

Box 14.19. Multilateral support for a green recovery in the Western Balkan region

The Economic and Investment Plan for the Western Balkans, a EUR 9 billion plan which the European Commission adopted on October 6, 2020, will provide a share of the financial resources required for a green recovery. The plan aims to spur the long-term economic recovery of the region, to support a green and digital transition, and to foster regional integration and convergence with the EU. The Plan identifies ten investment flagships to promote a modern, greener and more prosperous region. Among them, support to major road and railway connections in the region, renewable energies and transition from coal, renovation of public and private buildings to increase energy efficiency and reduce GHG emissions, as well as waste and waste water management infrastructure.

Through the Western Balkans Guarantee Facility, the EU provides guarantees to help reduce the cost of financing for both public and private investments, and to reduce the risk for investors. The Facility sorts under the EU External Action Guarantee and the European Fund for Sustainable Development Plus. Support through the Western Balkans Guarantee facility is expected to mobilise potential investments of up to EUR 20 billion in the next decade.

The EBRD Green Economy Financing Facility (GEFF) provides financing for the Western Balkans' energy transition, mainly for investments in residential and industrial energy efficiency. Under the WB6 Initiative, or Berlin Process, high-priority regional infrastructure projects that are identified as "Projects of Energy Community Interest" are prioritised for investment support (grant and loans) from the European Commission and from IFIs such as KfW and EBRD.

The Platform Initiative for Western Balkans and Ukraine aims to bring financial resources to assist in identifying and implementing pilot projects. The Platform Initiative, which consists of the Energy Community Secretariat, the European Bank for Reconstruction and Development, the European Commission, the World Bank, the Government of Poland, and the College of Europe aims to facilitate the development of transition strategies and projects to foment the transition process in the coal-dependent regions. This includes not only finance, but also a strong emphasis on peer-to-peer learning and technical assistance.

Source: European Commission (2020[43]), Western Balkans: An Economic and Investment Plan to support the economic recovery and convergence, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1811; GEFF/EBRD (2022[115]), Green Economy Financing Facilities, https://ebrdgeff.com/; WB EDIF (2017[116]), Guarantee Facility, http://www.wbedif.eu/for-entrepreneurs/guarantee-facility/; Energy Community (n.d.[117]), Platform Initiative in Support of Coal Regions in Transition for Western Balkans and Ukraine, www.energy-community.org.

14.7.1. Creating a conducive environment for investments in the power sector

To date, private investment in the Western Balkans power sector is slow to emerge. Between 2002 and 2015, private sector investment was only about USD 3.9 billion across the region, of which 30% was in Albania. Hydropower attracted most of private sector investment; other renewable energy investments included wind in Serbia and Montenegro. On a somewhat positive note, the only private investment in coal mining was in the Stanari complex in Bosnia and Herzegovina (World Bank, 2018[16]).

At present, private investors perceive Western Balkan governments as uncommitted to the clean energy transition. As long as this perception persists, investors are likely to remain hesitant. They also perceive that, under current regimes, they would be competing on unequal and unpredictable terms with SOEs.

To boost private sector energy investment, Western Balkan economies will need to demonstrate a stable and predictable policy, legal and regulatory environment, supported by a firm political commitment. Slow implementation of energy policy instruments undermines the credibility of government commitments to the clean energy transition, making investment unattractive. Necessary frameworks to attract low-carbon energy investment include: the completion of ambitious NDCs and NECPs; ending fossil fuel subsidies; pricing carbon; and strengthening legal and regulatory frameworks for energy sector investment. The Energy Community Decarbonisation Roadmap and the Clean Energy Package will strengthen the legal basis for decarbonisation, starting with the adoption of targets for 2030 and NECPs (NECPs) (Energy Community Secretariat, 2021[11]). Progress in adopting new regulation has been made in other areas as well, but gaps still remain in areas such as energy efficiency in buildings.

Delays in establishing an integrated and competitive regional energy markets are stalling the clean energy transition in the Western Balkans. As long as the transition is domestic and the market remains fragmented, progress will be slow – not least because the small size, limited institutional capacity, lack of competition and low logistical maturity of domestic markets deter investment. These conditions constrain future expansion of variable renewable energy sources. Continued market fragmentation would drive up annual capital expenditures in the medium term, as governments invest to reduce emissions while keeping sub-optimal resources in operation to guarantee a stable electricity supply (Kantor; E3M;, 2021[98]).

Similarly, local implementation challenges undermine financing of energy efficiency measures. Many international financial institutions (IFIs) and donors are keen to invest in energy efficiency; however, they rely on local financial intermediaries to identify and implement projects. At present in the Western Balkans, about 45 local commercial banks or financial institutions offer financial products for energy efficiency to corporations, SMEs, households and the public sector. But even if such financing is available, it may not be accessible to beneficiaries on affordable terms. This reflects challenges of creditworthiness, short loan tenors, restrictions on public borrowing, and perception of high risk as well as general unfamiliarity with energy efficiency lending on the part of financial institutions (World Bank, 2018[16]).

Local financial institutions hesitate to lend to renewable energy projects, which restricts access to finance. Financial institutions perceive renewables projects to be higher risk and more capital- intensive than conventional projects. Moreover, low understanding of the characteristics of renewables results in a relatively high cost of capital for renewables finance. Disrespect of environmental standards by many SHPPs – and their negative impacts on the environment and local communities – tarnishes the image of

renewables held by financial institutions and the general public (IRENA, 2021[89]). Capacity building for local banks could improve financing for renewable energy projects.

Western Balkan economies need to take steps to streamline procedures for energy infrastructure permitting and licensing, standardise project documentation, and establish safeguarding policies. Mechanisms such as standardised power purchase agreements, including specific clauses on monitoring and safeguarding policies, can improve monitoring. In turn, this would reduce the perception of renewables being high risk currently held by financing institutions (IRENA, 2021[89]).

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Notes

[1] This estimate stems from a World Bank study that uses the "cash needs" and "rate-of-return" approaches, both commonly use by regulators to estimate revenue requirements for utilities (World Bank, 2018[16]). This analysis found that three factors drive revenue shortfalls for government-owned utility companies: i) below-cost tariffs; ii) technical and non-technical losses; and iii) under-collections. The aggregate revenue shortfall from these factors indicates the total amount of implicit and explicit deficit, amounting to the "quasi-fiscal deficit" in the sector.

[2] The state aid rules are meant to be applied and enforced by national authorities of the Contracting Parties, which under the Treaty are obliged to assess compliance of any state aid measure before it is granted (Miljević, 2020[34]).

[3] Kosovo is not a member of the United Nations Framework Convention on Climate Change (UNFCCC), did not ratify the Paris agreement and does not have an NDC nor any other kind of GHG emission reduction target.

[4] IPPC permits for industrial installations in Western Balkan economies are not in compliance with the EU Directive on Industrial Emissions (2010/75/EU). Moreover, the process of issuing these permits is often inefficient and governed by political considerations. According to the directive, permit conditions (including emissions limit values) must be based on the best available techniques (BATs) and permits must take account of the environmental performance of the plant with respect to several criteria: emissions, pollution, waste generation, the use of raw materials, energy efficiency, noise, the risk of accidents, and restoration of the site upon closure.

[5] Energy Community contracting parties are subject only to a recommendation but not to an obligation to adopt NECPs. Still, all economies of the region opted for developing a NECP.

[6] Information from fact-finding in North Macedonia from expert consultants from CENER21.

[7] The World Bank; the Energy Community Secretariat; the European Bank for Reconstruction and Development (EBRD); the European Investment Bank (EIB); Poland's National Fund for Environment Protection and Water Management (NFOSiGW); and the College of Europe.

[8] Serbia's Law on the Use of Renewable Energy Sources foresees the conversion to full balancing responsibility once the intraday balancing market is liquid. According to Albania's renewable energy law, new renewable energy producers are responsible for balancing while incumbent priority producers will become responsible as soon as a balancing market is established – but not later than 31 December 2022. However, these regulations are not applied in practice in Albania. The Federation of Bosnia and Herzegovina's renewable energy law (from 2013) envisages the adoption of a methodology for allocating balancing costs. This methodology was never finalised, however, and renewable energy producers under FiTs remain exempted from balancing responsibility. In Republika Srpska and in Kosovo, renewable producers under support schemes bear 25% of balancing costs. In North Macedonia, only renewable producers under administratively set FiTs are exempted from balancing responsibility; those receiving support through auctions have balancing responsibility. For long-term contracts, this exemption must be phased out as soon as liquid balancing markets are established.

[9] An electronic system for the issue, transfer and cancelation of guarantees of origin ensures that each unit of energy from renewable sources is taken into account only once, thereby preventing double counting.

[10] In 2017, the Energy Labelling Directive (EDL-2010/30/EU) y Regulation 2017/1369, setting a framework for energy labelling (EUR-Lex, 2017[120]).

[11] EU figure from (Werner, 2017[118]). For comparison, district heating accounts for about 14% of heat delivered in Germany and 5% in France (Euro Heat & Power, 2019[119]).

[12] Information from fact-finding in the Western Balkan region from expert consultants from CENER21.

[13] Carbon pricing integrates the real costs of CO2 emissions, thereby raising the cost of carbon-intensive assets. In turn, these higher costs steer consumption and investment – by both households and firms – towards low-carbon assets and goods, encouraging energy savings, improvements in energy efficiency, and scale up of renewable energies and other low-carbon technologies (Miljević, 2020[34]).

[14] With regard to regional capacity allocation, the SEE CAO has been described as "a great example of regional coordination between transmission system operators" (World Bank, 2018[16]).

[15] Net-transfer capacity = the levels of cross-border capacity provided to market participants for commercial use without jeopardizing the security of supply (EU Regulation 2019/943).

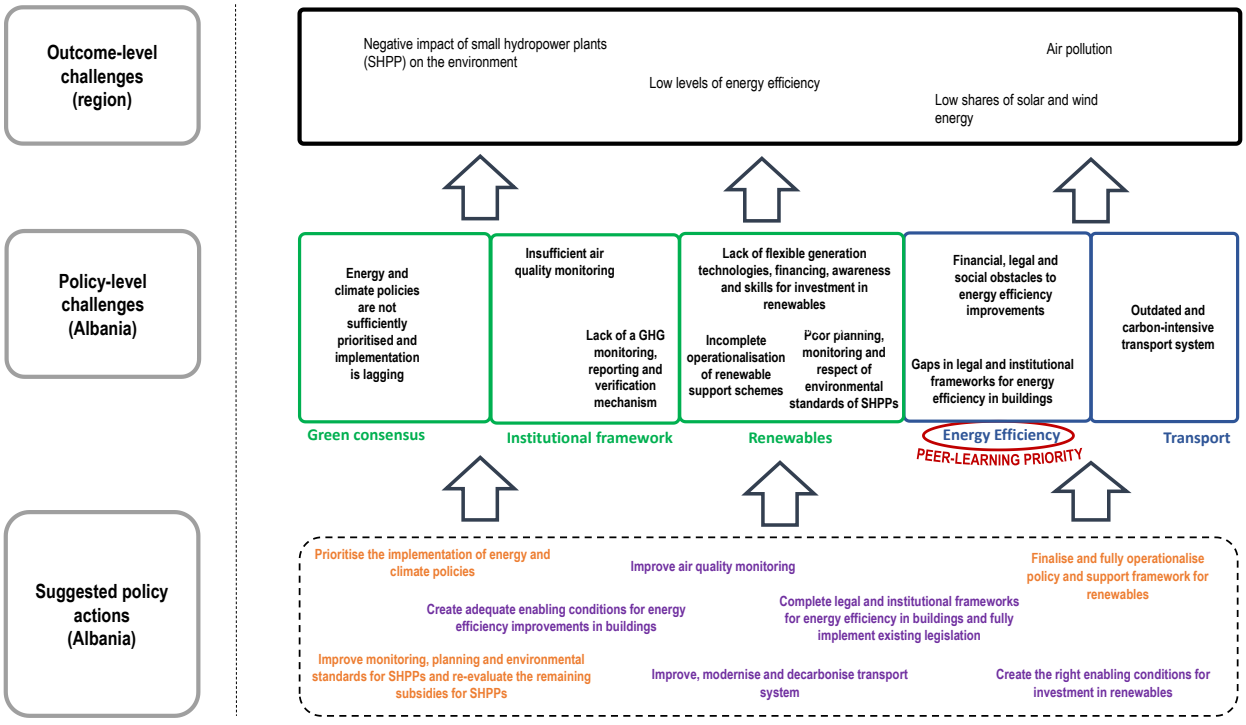
[16] Capacity calculation regions are defined as geographic areas in which co-ordinated capacity calculation is applied. Co-ordinated capacity calculation defines cross-zonal transmission capacities for day-ahead, intraday and long-term timeframes to ensure an optimal capacity of the electro-energetic systems is made available to the market.

15 A green recovery in Albania

This chapter presents key policy priorities to ensure a green recovery in Albania through energy transition. Albania can become self-sufficient in clean energy, and even a net exporter, through a combination of energy efficiency measures in buildings and the development of intermittent renewable energy sources such as wind and solar. Given its large hydropower storage potential, Albania has sufficient baseload capacity to replace its electricity imports with domestic intermittent renewables. Albania could explore the possibility of its hydropower storage potential (including pumped hydropower) becoming a "green battery" for the wider region. By incentivising the use of more energy efficient cars and modernising its railway system, Albania could significantly reduce air pollution and greenhouse gas emissions from its very energy-intensive transport sector. To ensure progress is measurable, capacity for air quality monitoring needs to be strengthened. To reduce the environmental impacts of energy infrastructure projects, particularly of small hydropower plants, such projects should be subject to consistent application of environmental impact assessments. More broadly, financing and regulatory frameworks for renewable energy and energy efficiency in buildings need to be further developed.

The Initial Assessment of the Multi-dimensional Review (MDR) of the Western Balkans identified a green recovery as a top policy priority for Albania and the region as a whole. Energy and air pollution are complex challenges and significant obstacles to future economic development and well-being. Air pollution, unreliable access to clean energy and unsustainable environmental practices were identified as key constraints in Albania and the Western Balkan region in the Initial Assessment. Albania's reliance on hydropower, and the absence of coal in its energy mix, mean that the energy sector, climate and environment challenges it faces are very different from the rest of the region. Building on the initial assessment, the "From Analysis to Action" phase of the project provides policy suggestions to help foster a green recovery from the Covid-19 pandemic in Albania and the other Western Balkan economies. The peer-learning workshops on green recovery served three complementary aims: to identify problems hampering the green recovery; to identify key policy challenges; and to put forward key policy priorities for Albania and for the region (Figure 15.1).

Figure 15.1. Towards a green recovery in Albania and the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Albania's energy sector differs significantly from other Western Balkan economies. Most notably, Albania relies almost entirely on hydropower for electricity generation, which accounts for 99.5% of domestically generated supply (Eurostat, 2021[1]). As hydropower output is subject to variability reflecting fluctuating rainfall patterns, Albania imports about one-third of electricity consumption from neighbouring countries (INSTAT, 2021[2]). The high share of hydropower for electricity generation means Albania performs well in terms of energy efficiency and greenhouse gas (GHG) emissions: its energy intensity (2.5 GJ/USD 1 000 2015 PPP in 2019) is below the regional average (4.6 GJ/USD 1 000 2015 PPP) and the EU average (3.8 GJ/USD 1 000 2015 PPP in 2019). In fact, it is the lowest in the Western Balkan region (IEA, 2021[3]). Albania has the lowest per-capita carbon dioxide (CO_2) emissions in the Western Balkan region and in Europe. In 2018, its per-capita CO_2 emissions were only 1.5 t CO_2, against a regional average of 4.4 t CO_2 and an EU average of 6.1 t CO_2. In relation to economic output, however, Albania's

GHG emissions (0.27 t CO2 per unit of GDP [2015 USD]) remain above the EU average (0.16 t CO2 per unit of GDP) (IEA, 2021[3]).

Albania has an excellent basis to forge ahead on a green recovery path, reflecting remarkable progress in recent years across different dimensions. Albania adopted a Law on Climate Change in 2020 and Albania was the first Western Balkan economy to adopt its National Energy and Climate Plan (NECP) in December 2021. Albania further adopted an enhanced Nationally Determined Contribution (NDC) in preparation of the 26th Conference of Parties to the UN Framework Convention on Climate Change (COP26) in 2021, including a more ambitious GHG emission reduction target. Albania has had a Law on Energy Efficiency since 2015, to which ambitious amendments were recently introduced to include additional energy efficiency measures. In 2017, Albania was one of the first Western Balkan economies to introduce renewable auctions for solar and wind energy (based on a contract-for-difference variable premium).

To ensure a fully green recovery, Albania must now tackle a set of important challenges that remain. In Albania, energy and climate policies are not sufficiently prioritised, and policy implementation frequently lags. Monitoring of air quality is insufficient, and Albania lacks a GHG monitoring, reporting and verification mechanism. Several factors hamper investment in solar and wind power: difficult access to financing; low public awareness of the benefits of renewables; and a shortage of people with relevant skills. Additionally, Albania's net-metering and contract-for-differences schemes are yet not operational. Recent roll-out of small hydropower plants (SHPP) are reportedly damaging the environment, due to poor planning and monitoring as well as failure to comply with environmental standards. Gaps remain in Albania's legal and institutional framework for energy efficiency in buildings, and there are persistent financial, legal and social obstacles to energy efficiency improvements. Poor and outdated public transport and old passenger vehicles generate high levels of air pollution, particularly in urban areas (Figure 15.1). These issues reflect policy challenges raised by participants from Albania during the green recovery peer-learning workshop.

Eight policy priorities have great potential to ensure a green recovery in Albania, with energy efficiency improvements in buildings being the first-order priority. These eight policy priorities seek to address issues raised by participants from Albania at the green recovery peer-learning workshop:

- Set incentives and create enabling conditions for energy efficiency improvements in buildings (peer-learning priority)
- Complete legal and institutional frameworks for energy efficiency in buildings, and fully implement existing legislation (peer-learning priority)
- Prioritise implementation of energy and climate policies
- Improve monitoring of air quality
- Finalise and fully operationalise policy and support frameworks for renewables
- Create the enabling conditions for investment in renewables
- Improve monitoring, planning and environmental standards for SHPPs, and re-evaluate remaining subsidies for SHPPs
- Improve, modernise and decarbonise the transport system

This chapter is divided into nine sections. Sections 15.1 to 15.8 provide policy implications across the eight policy priorities through a prism of challenges specific to Albania. Section 15.9 provides indicators against which progress in policy implementation can be measured. This chapter is complemented by the regional chapter (Chapter 14), which provides more specific policy options based on international practice that may be applied, with necessary adaptations, also to Albania.

15.1. Set incentives and create enabling conditions for energy efficiency improvements in buildings in Albania

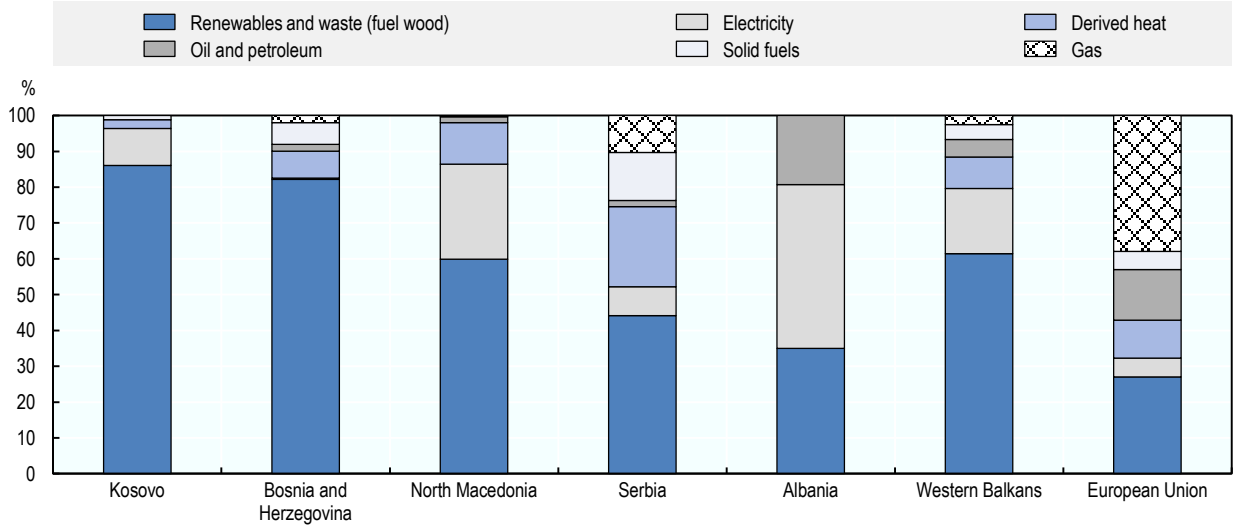
High energy consumption in residential and public buildings was highlighted by peer-learning participants as one of the key issues that needs to be addressed in Albania. In 2019, the residential sector accounted for 24% of final energy consumption in Albania; in 2018, this sector accounted for 53% of electricity consumption. At present, solar and wind energy account for only 2% of residential energy consumption (IEA, 2021[3]). For space heating, Albania relies mainly on electricity (45.8%), fuel wood (35%) and oil products (19.3%), with liquefied petroleum gas (LPG) holding the major share of the latter (Figure 15.2). Many Albanian homes are only partially heated – meaning for just a few hours per day. Continued reliance on traditional biomass burnt in outdated woodstoves results in numerous environmental and health problems. According to Albania's residential and public building typologies,[1] all residential and public buildings constructed prior to 2010 completely lack insulation (Regional Environmental Centre, 2015[4]; Regional Environmental Center, 2016[5]).

The need to renovate public buildings, in combination with providing incentives to stimulate renovation of households and businesses, was stressed by peer-learning participants (Box 15.1). Tax or financial incentives could encourage more households and businesses in Albania to invest in energy efficiency improvements. In Bosnia and Herzegovina, the cantons of Tuzla and Sarajevo have used such an approach, subsidising investments in energy efficiency improvements in residential and commercial buildings to encourage replacement of coal-fired boilers with certified boilers and heat-pumps and/or installation of renewables for self-consumption (UNDP Kosovo, 2021[6]). Raising sufficient financial resources is an important pre-condition to increasing energy efficiency investment in public buildings and to introducing financial incentives for energy efficiency improvements in residential and commercial buildings.

Albania requires a financing framework and a strategy to raise sufficient financial resources for energy efficiency improvements in buildings. An estimated EUR 2.3 to 2.7 billion is needed for energy efficiency improvements in Albania's building sector until 2030 (Regional Environmental Centre, 2015[4]; Regional Environmental Center, 2016[5]). At present, Albania lacks a relevant financing framework and the Energy Efficiency Fund stipulated in Albania's 2015 Law on Energy Efficiency has yet to be established (Energy Community Secretariat, 2021[7]). It would be important to operationalise this fund as soon as possible. Lack of knowledge on the specificities of energy efficiency improvements makes financial institutions in Albania reluctant to provide financing.

Figure 15.2. For space heating, Albania is more reliant on electricity and oil/petroleum products than other Western Balkan economies – and less reliant on renewables and waste (mainly fuelwood)

Space heating by type of fuel, 2018



Source: Eurostat (2021[1]), Eurostat (database), https://ec.europa.eu/eurostat/.

StatLink https://stat.link/u91ndh

A mechanism is needed to allow those in informal housing to benefit from financial support for energy efficiency improvements, a step beyond the identified peer-learning priorities. Informal housing is widespread in Albania. Currently, the economy lacks a formalisation procedure for self-constructed, informal housing, which would be a prerequisite for financial support for energy efficiency improvements in these buildings (Andoni, 2015[8]).

Raising awareness on and establishing effective incentives for energy efficiency improvements should be high on the policy agenda. Lack of awareness on the costs and benefits of energy efficiency improvements is problematic in Albania.[2] A lack of technical expertise also hampers progress on energy efficiency improvements.

To facilitate energy efficiency improvements for multi-apartment-buildings, Albania needs to consider reforming regulations. Some 43% of residential buildings in Albania are multi-apartment buildings, compared with a Western Balkan average of 39% (Energy Community Secretariat, 2021[9]). In multi-apartment-buildings, decisions on energy efficiency improvements need to be made collectively but achieving consensus in homeowner associations often proves to be difficult. Furthermore, split incentives exist in the rental market: since tenants pay the energy bills, property owners do not receive any direct benefits from investing in energy efficiency measures. In addition, access to financing for energy efficiency improvements in multi-apartment buildings is a challenge, partly because the creditworthiness of homeowner associations is low. Homeowner associations in Albania lack reserve funds for energy efficiency improvements (Regional Environmental Center, 2016[5]). Albania should make it mandatory for homeowner associations to establish funds for energy efficiency improvements, and could introduce an obligation for such improvements when these buildings are renovated. To address the funding challenge in the near term, financial resources could be secured through government loan guarantees or other financial incentives.

Box 15.1. Outcomes of the green recovery peer-learning workshop (Albania)

Participants from Albania (representing government, the private sector and civil society) at the OECD green recovery peer-learning workshop identified enhancing energy efficiency in buildings as the top priority. They specifically noted the need to start with old public buildings. Across the sector, they suggested an aim of 2% of buildings being retrofitted each year, as well as an action plan to complement current policy efforts. More specifically, peer-learning participants suggested three overarching actions with corresponding monitoring indicators (Table 15.1).

Table 15.1. Enhance energy efficiency in buildings, starting with old public buildings (2% of buildings retrofitted each year)

Action plan and monitoring indicators

Actions	Monitoring indicators
Action 1: Public works for renovation of public buildings Action 2: Incentives for renovation of private housing Action 3: Tax incentives for businesses to renovate office buildings	• Floor area retrofitted (per 1 000 m^2) • Costs of energy saved (EUR/kWh) • Investment costs (EUR million) • CO2 reductions (tonnes of CO2) • Primary energy demand savings (GWh [ktoe]) • Final energy demand savings (GWh [ktoe]) • Saved energy costs (annually or over lifetime) (EUR million) • Simple payback period (years) • Internal rate of return (%) • Net present value (EUR/m^2) • Cost-benefit ratio • Value added generated (EUR million) • Employment (number of jobs created) • Monetised value of CO2 emissions avoided (EUR million) • Impact on healt through better air quality (EUR million) • Improved comfort and services of buildings (EUR million)

Source: OECD peer-learning workshops.

Peer-learning participants from Albania stressed the need for an effective institutional framework and a financing mechanism for energy efficiency, and for efforts to raise awareness. Appointing a responsible institution for energy efficiency is a key action; the importance of involving both central and local governments was noted, along with fostering collaboration with the business community. To secure financing for energy efficiency, peer-learning participants suggested creating a dedicated energy efficiency fund and seeking financial support from international financial institutions (IFIs). Awareness campaigns and education on the benefits and importance of energy efficiency could be launched in schools, through NGOs and through business associations.

Source: OECD peer-learning workshops.

15.2. Complete the legal and institutional framework for energy efficiency in buildings, and fully implement existing legislation

Albania has already taken measures to improve energy efficiency in buildings. In 2015, Albania adopted a new Law on Energy Efficiency (No. 124/2015), which established the Agency for Energy Efficiency and set out the aim to establish an Energy Efficiency Fund (which has not yet been done). The law further stipulates the adoption of an Energy Efficiency Action Plan, including specific targets. The mandate of the Energy Efficiency Agency includes implementing the Energy Efficiency Action Plan, and creating and regularly updating a national database on energy efficiency, which should contain data on final energy consumption and energy savings. The law obliges all entities applying for programmes financed by the Energy Efficiency Fund to appoint energy managers and to undertake energy audits every three years (UNECE, 2018[10]). Albania's Parliamentary Committee on Production Activities recently approved amendments to the Law on Energy Efficiency. Starting from 01 September 2021, the public sector must renovate a minimum 3% of the total public buildings stock annually to meet the minimum energy performance standards (MEPS). All municipalities are required to draft energy efficiency action plans at the local level. Large energy consumers, following energy audits, have to draft action plans designed to reduce electricity consumption by at least 4% (Balkan Green Energy News, 2021[11]).

Going forward, Albania should accelerate implementation of the Law on the Energy Performance of Buildings. This law was established in 2016; however, by-laws for its implementation (e.g. setting MEPS) and new labelling regulations (e.g. certification of buildings) have not yet been adopted (Energy Community Secretariat, 2021[7]).

Completing Albania's legal framework for energy efficiency improvements in buildings is also important. The government has already drafted several amendments transposing EU Directive 2012/27/EU on Energy Efficiency (EED), but again these have not been adopted. Albania has not yet updated its National Energy Efficiency Action Plan (NEEAP), which expired in 2019, as required by the reporting obligations of the EED (Energy Community Secretariat, 2021[7]).

Albania has both residential and public building typologies. In the context of the Support for Low-Emission Development in South Eastern Europe (SLED) project, Albania prepared a residential building typology in 2015 and a public building typology in 2016. Both typologies include a classification of existing buildings according to age, size and other parameters, a set of existing building types, estimates of energy consumption for each type, and calculations and scenarios for energy efficiency improvements and savings. The residential building typology includes three scenarios for improving energy efficiency in buildings. A calculation methodology for cost-optimal levels of energy performance of buildings was adopted in July 2020 (Regional Environmental Centre, 2015[4]; Regional Environmental Center, 2016[5]).

Improving co-ordination of energy efficiency policies is vital. This was also stressed by the peer-learning participants from Albania (Box 15.1). At present, energy efficiency policies directed at the buildings sector are not centralised at one institution. Co-ordination between local and central levels of government needs to be improved. Energy efficiency policies could, for example, be centralised at Albania's Agency for Energy Efficiency.

15.3. Prioritise implementation of energy and climate policies

Going forward, a stronger focus on implementing energy and climate policies is important for Albania. Several strategic documents on energy and climate policies have already been adopted (e.g. the National Climate Change Strategy and the the National Energy and Climate Plan [NECP]). Albania recently revised its GHG emissions reduction target. Overall, however, the economy is not yet sufficiently focusing on implementation of such policies (Energy Community Secretariat, 2020[12]).

Albania has set a target to reduce GHG emissions through an inclusive process. In its enhanced NDC under the Paris Agreement, Albania committed to reduce GHG emissions by 20.9% by 2030 compared with business as usual. In its first NDC, Albania had committed to reduce CO2 emissions by 11.5% between 2016 and 2030 compared with the baseline scenario (Republic of Albania, 2016[13]). The enhanced NDC covers gases other than CO2 (e.g. methane [CH4], nitrous oxide [N2O], and fluorinated GHGs [F-gases]) that were not included in the first NDC (Republic of Albania, 2021[14]). In 2019, Albania joined the NDC Partnership – a global initiative to help countries achieve their national climate commitments and ensure financial and technical assistance is delivered as efficiently as possible. The NDC Partnership and the United Nations Development Program (UNDP) supported Albania in the process of revising its NDC in preparation for the 26th Conference of the Parties (COP26) to the UN Framework Convention on Climate Change (UNFCCC), as part of Albania's commitments under the National Climate Agenda and the Sustainable Development Goals (SDGs). For the first time, public consultations allowed youth to be involved in the process of revising the NDC (NDC Partnership, 2021[15]).

Albania has already adopted several strategic documents to facilitate implementation of energy and climate policies. Albania adopted its NECP 2021 – 2030 in December 2021 (Energy Community Secretariat, 2022[16]). International donors and experts support the preparation of the analytical basis of the Albanian NECP (Energy Community Secretariat, 2020[12]; Energy Community Secretariat, 2021[17]). Albania finalised the first Biennial Update Report (1BUR) to fulfil reporting obligations under the UNFCCC in 2021 (expected since 2014) and submitted the report to the UNFCC Secretariat. Albania is currently preparing the Fourth National Communication (4NC) to the UNFCCC (Energy Community Secretariat, 2021[18]).

It is important to fully implement Albania's Law on Climate Change and other strategic documents. Albania's parliament adopted a Law on Climate Change in December 2020. This law provides the legal basis for submitting Albania's NDC to the UNFCCC and aims to integrate mitigation and adaptation policies into Albania's legislation, strategic documents and policies. The law also creates a comprehensive legal and institutional framework for climate action at the national level. In 2019, the government endorsed the National Climate Change Strategy – a low carbon-development strategy for implementing the Paris Agreement.

Establishing a GHG monitoring, reporting and verification mechanism needs to be an integral part of the green recovery process. Albania's Law on Climate Change includes provisions on the monitoring, reporting and verification of GHG emissions, but no such mechanisms have been put in place. Albania's newest GHG inventory is for the 2010-16 period (part of the first Biennial Udpate Report published in 2021) (Ministry of Tourism and Environment, 2021[19]). A GHG monitoring, reporting and verification mechanism is key to gain accurate information on GHG emissions and constitutes the basis for transposing and implementing the EU Emission Trading Scheme (EU ETS) Directive. It is also the legal basis for the adoption of Albania's NECP for the period 2021-30.

Enhancing collaboration with the private sector, civil society and academia is important in the design and implementation of energy and climate policies. An institutionalised, public-private dialogue on economic policy, including energy and climate policies, exists in Albania. The National Economic Council (NEC) ensures dialogue and consultation between the government and the private sector through periodic meetings and the provision of comments on draft laws and other strategic and policy documents. The NEC also facillitates private sector suggestions and proposals through its official website and through the set-up of temporary sub-committees to discuss specific issues. The NEC's private sector members include 26 registered business associations (Varfi, 2015[20]). However, at present, the NEC does not include representatives from civil society and academia. The NEC further covers a wide range of topics beyond energy and climate policies.

Albania has already taken steps to improve access to information and public participation in policy making on environment, energy and the climate. Albania transposed important elements of the Aarhus

Convention[3] into its legislation through two legislative frameworks: the 2014 Law on the Right to Information and the 2015 Law on Notification and Public Consultation (The Assembly of the Republic of Albania, 2014[21]; The Assembly of the Republic of Albania, 2014[22]). Adopted on 25 June 1998 at the Fourth Environment for Europe Ministerial Conference in the Danish city of Aarhus, the Aarhus Conventions aims to empower the citizens and civil society organisations (CSOs) in environmental matters by establishing several rights for each group with regard to the environment (UNECE, 2021[23]). The Law on the Right to Information aims to promote integrity, transparency and accountability of public authorities, and lays out fines and appeal procedures against administrative sanctions. The Law on Notification and Public Consultation lays out a public transformation process for draft laws and strategic and policy documents.

15.4. Improve the monitoring of air quality

Air pollution in Albania is lower than in other Western Balkan economies, but remains a challenge in comparison to international benchmarks. While the World Health Organization (WHO) recommends a maximum annual average PM2.5 air pollution of 10 µg/m^3 (EEA, 2019[24]), the average in Albania was 18.6 µg/m^3 in 2017, compared with 25.8 µg/m^3 in the Western Balkan region and only 12.5 µg/m^3 in the European Union. Among 41 European countries, Albania ranks third (after Kosovo and Serbia) in terms of years of life lost per 100 000 inhabitants due to PM2.5 air pollution. This estimation is based on 2016 data, since Albania has not submitted more recent data to the EEA on time, due to a lack of functional air quality monitoring (EEA, 2020[25]). Sources of air pollution in Albania include oil and gas extraction, inefficient technologies for household heating, cement production, and vehicle emissions (transport). Transport is the main contributor to air pollution in Tirana (City of Tirana, 2018[26]).

Albania has a solid legal framework on air quality but gaps remain in air quality monitoring. The Law on the Protection of Ambient Air Quality No. 162/2014, along with subsequent amendments and by-laws, defines the responsibilities of competent authorities. These policies also regulate the publication of information on air quality and provide the legal basis for air quality assessments, actions to reduce air pollution and development of air quality plans – including public participation in these processes. Albania has a National Strategy on Ambient Air Quality (DCM No. 594 from 2014) and approved the National Action Plan for Ambient Air Quality Management in June 2019. The latter plan mostly focuses on measures to reduce transport air pollution and does not direct resources to improving the air quality monitoring system.

Albania should establish additional air quality monitoring stations and ensure regular maintenance of new and existing stations. Air quality monitoring is not functional in Albania (European Commission, 2020[27]). In 2013, two monitoring stations were installed within the urban area of Tirana, but they are insufficient to monitor air quality across the entire city area and in all sensitive areas (most importantly, hot spots from heavy traffic) (City of Tirana, 2018[26]). At the time of writing, lack of funding meant that air quality monitoring equipment was not being maintained and calibrated, and all air quality stations had been turned off (European Commission, 2020[27]). Better air quality monitoring would allow Albania to identify how different sources contribute to overall air pollution, which would support the design of more informed and effective policies to reduce air pollution. It is also important to regularly share information on air quality with the public and make this information easy to access.

Increasing human and financial resources dedicated to air quality monitoring would also be important (European Commission, 2020[27]). Albania lacks financial resources to invest in additional air quality monitoring stations and to carry out regular maintenance of existing stations (European Commission, 2020[27]). Within the Ministry of Tourism and Environment, the number of employees responsible for environmental issues is insufficient to carry out main aspects of its mandate, such as: developing the policy and legal framework for air quality management; inter-institutional and international co-operation; and the daily management of activities to ensure adequate air quality management. This

explains why Albania's Strategy on Ambient Air Quality from 2014 and Plan for Air Quality Management from 2019 were drafted with the help of an NGO called Strengthening Environmental Legislation Albania (SELEA) and the EU-funded project Technical assistance for institution building of the Ministry of Environment in enforcing environmental and climate *acquis* – Albania (IBECA).[4]

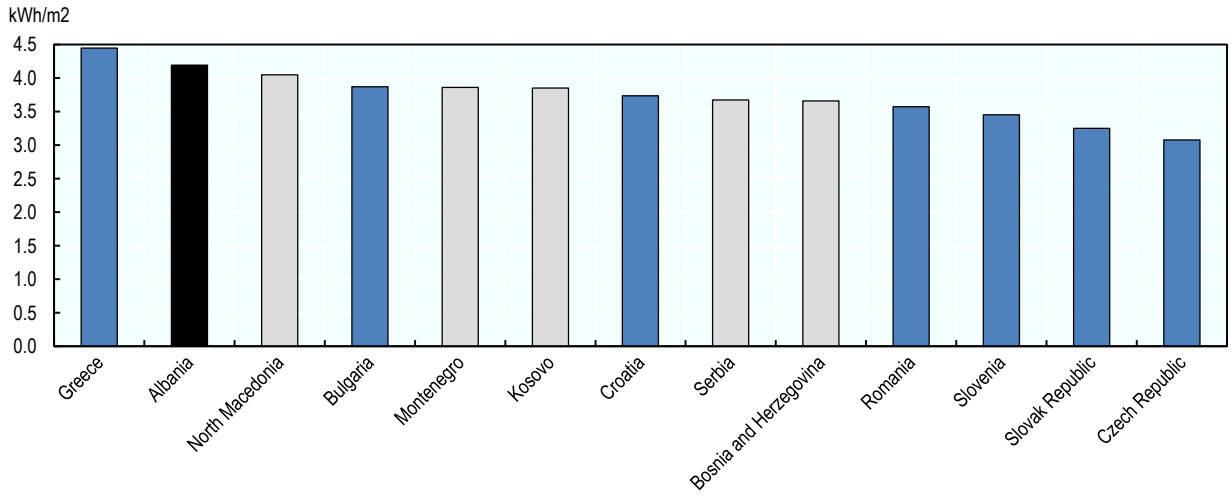
15.5. Finalise and fully operationalise Albania's policy and support framework for renewables

The use of solar power is more widespread in Albania than in other Western Balkan econmies but remains limited. In 2019, photovoltaic (PV) solar power generated 0.4% of electricity in Albania compared with 0.2% on average across the region. In 2018, solar thermal energy accounted for 0.6% of final energy consumption in Albania (against 0.1% on average in the region) and for 1.6% of residential energy consumption (against 0.1% in the region). Solar thermal energy amounted to 2.4% of commercial and public energy consumption in Albania compared with 0.6% as the regional average (IEA, 2021[3]).

Albania has potential to scale up solar and wind power for electricity generation, for heating and cooling, and in the transport sector. Albania is among the European countries with the highest number of sunshine hours per year and has the highest potential for solar energy in the Western Balkan region (Figure 15.3) (ESMAP, 2020[28]). Solar irradiation in most of Albania is more than 1 500 kWh/m^2 annually (about 4.2 kWh/m^2 a day), with peaks of 1 753 kWh/m^2 (4.8 kwh/m^2 a day), particularly in Western Albania. On average, Albania enjoys 220 sunshine days (2 700 hours of sunshine) per year (IRENA, 2021[29]). It is also endowed with high wind speeds. In many locations, solar PV, thermal solar for heating and onshore wind are cost-competitive.

Figure 15.3. Albania has the highest potential for solar energy in the Western Balkan region

Theoretical daily average solar PV potential (kWh/m^2), 2020



Note: Theoretical PV potential is calculated using global horizontal irradiation (GHI, measured in kWh/m^2/day), the long-term amount of solar resource available on a horizontal surface on Earth.
Source: ESMAP (2020[28]), Global Photovoltaic Power Potential by Country, https://globalsolaratlas.info/global-pv-potential-study.

StatLink https://stat.link/pybq1t

Albania adopted a legal framework (in 2017) for the use and promotion of renewable energies. Albania's Law on the Promotion of the Use of Energy from Renewable Sources No. 7/2017 provides the framework for defining national renewable energy targets and incentive schemes to support roll-out of renewable energies, including a net metering scheme, a contract-for-difference scheme and feed-in tariffs (FiTs). This law obliges all renewable energy producers to submit data on annual production (The Assembly of the Republic of Albania, 2017[30]). Albania's Economic Recovery Programme (ERP) 2021-2023 aims to diversify the energy supply by promoting renewable energy sources and energy efficiency improvements (Republic of Albania - Council of Ministers, 2021[31]).

The Law on the Promotion of the Use of Energy from Renewable Sources introduces a contract-for-difference variable premium (feed-in premium) and a fixed purchase price (FiT) for renewables, set by the regulator. Large renewable energy facilities (capacity above 2 MW for electricity generation, above 3 MW for wind power and above 15 MW for hydropower) benefit from the contract-for-difference variable premium. Small renewable facilities (below 2 MW for electricity generation and below 3 MW for wind power) benefit from a fixed purchase price set by the Regulatory Agency (ERE).[5] The fixed purchase price for small renewable facilities takes into consideration a reasonable return on investment.[6] Starting in 2021, concessions and the FiT for SHPPs above 2 MW were suspended due to the negative impact such plants have the environment and local communities. However, hydropower projects can still compete in auctions and benefit from contract-for-difference support (The Assembly of the Republic of Albania, 2017[30]; Energy Community Secretariat, 2020[12]).

Fully operationalising Albania's contract-for-difference scheme requires the signature of power purchasing agreements (PPAs) and the introduction of a day-ahead market. The first renewable energy auctions under Albania's contract-for-difference scheme (feed-in premium) were organised in November 2018. Albania auctioned a tender for a 50 MW solar park to be built on the Akërni salt flats, near Vlorë. The auction went to Indian Power.[7] Following the second auction (in July 2020), the Albanian government and Voltalia (a French renewable energy company) signed a contract for construction of the Karavasta Photovoltaic Park -- at a record-low price of EUR 24.89/MWh (about 40% below the maximum price of EUR 55.00/MWh, set by the Albanian government)[8] (PV Magazine, 2020[32]). In June 2021, Albania launched its first tender for large-scale onshore wind power plants. Individual projects with capacities between 10 MW and 75 MW can apply for a total tendered capacity of 100 MW (Ministry for Infrastructure and Energy, 2021[33]). More auctions for construction of large-scale solar and wind projects are envisaged for the period 2021-23. However, PPAs with the winning consortia of solar auctions held since 2018 remain to be signed. In turn, Albania's day-ahead market needs to be operationalised to support full implementation of the contract-for-difference scheme (Energy Community Secretariat, 2020[12]).

Following the introduction of incentives in 2017, Albania's solar and wind energy capacities have started to increase, but remain low overall. At the end of 2020, Albania had 1 MW of solar energy installed; in the first half of 2021, three small solar parks (combined capacity of 2 MW) were connected to the grid. Albania has plans to operationalise another 50 MW of utility-scale solar energy in 2021 (from the solar plant constructed near Vlorë). Small-scale rooftop PV remains largely inexistent, meaning signficant potential remains untapped (European Commission, 2019[34]; Energy Community Secretariat, 2021[17]). Croatia, which has similar solar and wind power potential, provides a successful example of having increased its capacities for both technologies since 2004, when the first wind farm was established. As a consequence of generous financial incentives, wind power production increased from 0.067 TWh in 2010 to 1.01 TWh in 2016 (Institute of Public Finance, 2018[35]). Use of solar energy has also increased considerably, particularly in coastal cities. Croatia's total installed solar PV capacity increased from 0.3 MW in 2010 to 84.8 MW in 2020 (IRENA, 2020[36]).

Fully operationalising Albania's net metering scheme and introducing incentives for solar heating and cooling are also important. In the context of Albania's net metering scheme, small- and medium-sized enterprises (SMEs) and households can install up to 500 kW of solar or wind power capacity to supply their own electricity needs. The scheme also allows them to sell any surplus electricity produced to

the universal service supplier for introduction into the distribution grid. Electricity consumers need to install, at their own expense, a bidirectional meter. The surplus electricity is sold to the universal service supplier on a monthly basis at a price defined by ERE. By March 2021, ERE had not yet defined this price. According to Law 7/2017 on the Promotion of the Use of Energy from Renewable Sources, the Ministry of Infrastructure and Energy is mandated to introduce a simplified procedure for issuing authorisations for connecting small-scale renewables to the electricity grid – but has not done so yet. Albania still lacks an incentive scheme for solar heating and cooling.[9]

15.6. Create the enabling conditions for investment in renewables in Albania

Scaling up solar and wind power in Albania requires strategic use of hydropower reservoirs, to complement intermittent renewables. Whereas hydropower is sensitive to the availability of water resources and rainfall patterns, the storage potential of hydropower dams provides significant potential for complementarity with intermittent sources of renewable energy such as sun and wind. At present, Albania relies on electricity imports (equal to 30% of domestic consumption in 2019) from neighbouring economies to complement electricity production from hydropower (INSTAT, 2021[2]). A significant share of these imports could be replaced by domestically produced solar and wind energy. To reliably balance large fluctuations in the electricity supplied from solar and wind power, Albania will need to develop a strategy for delivering dispatchable hydroelectric power during periods of little wind and when the sun does not shine, as well as maintaining good interconnectivity with neighbouring economies for additional flexibility. Contary to other Western Balkan economies, the energy storage potential of hydropower dams allows Albania to solve the challenge of delivering baseload energy to complement intermittent renewables.

Improving access to finance for renewables is critical. High upfront investment costs and relatively high cost of capital in Albania have the effect of deterring wider uptake of renewables. The high cost of capital reflects a perception that renewable energy projects are higher risk than conventional energy projects. Country-level political and off-taker risks make investment risks seen as higher in the Western Balkan region than in the rest of Europe, which contributes to a substantial risk premium. As PPAs are exposed to local currency fluctuations, a third layer of risk comes into play. Risk is further amplified by the non-respect of environmental standards by several hydropower projects in the recent past. These perceptions of high risk tend to drive up collateral requirements for renewable energy projects (often 150% of the loan) while project assets are often not accepted as collateral. To improve acess to finance renewables, effort is needed to improve local financial institutions' understanding of renewable energy technologies and the financial frameworks for their deployment. The government also needs to standardise project documentation for investments in renewables and strictly monitor project compliance with environmental and other standards (IRENA, 2021[29]).

Improving the skills in demand for installation of renewable energy equipment is a pre-requisite to facilitating more investment in renewables. Human resources, adequately skilled and locally available to work on various parts of the renewable energy value chain, are crucial to support expansion of Albania's renewable energy sector. Lack of such resources is reported by the private sector as a main hindrance to investment in renewable energies. Albania currently lacks renewable energy curricula at vocational, technical and tertiary education institutions. In particular, a shortage of qualified solar PV installers and energy auditors is noted, with the latter particular affecting installation of solar PV net-metering systems in new buildings. In Albania, before a net-metering system can be approved and installed, it is necessary to determine the building's energy consumption for the preceding two years. If historic data are not available (e.g. for newly constructed buildings), an energy auditor needs to estimate the building's energy consumption patterns. The shortage of energy auditors means the approval of net-metering systems can be difficult, with long delays of approvals. Albania should evaluate skills needs in the energy sector, develop a strategy to generate those skills that are lacking, and ensure government institutions in charge

of energy policy making and education collaborate closely witih the private sector and civil society (IRENA, 2021[29]).

Some initiatives are underway to create and modernise tertiary and technical renewable energy curricula in Albania. The project Engineering curricula modernisation in renewable energy in Albanian Universities (ENGINE), co-funded by the Erasmus+ Programme of the European Union and led by Polytechnic University, brings together 11 partners. The project aims to modernise and internationalise both vocational eduction and trainng (VET) and Bachelor curricula in renewable energy engineering in targeted universities while aligning curricula with labour market demand (Engine Project, 2021[37]).

15.7. Improve monitoring, planning and environmental standards for SHPPs and re-evaluate remaining subsidies for SHPPs

Albania has a large number of SHPPs, with estimates ranging from 186 to 714 (WWF Adria/Eco-Albania research team, 2020[38]; CEE Bankwatch Network, 2019[39]). While 83.7% of electricity generated from hydropower originates from large state-owned plants, the share of 16.3% from small, privately owned hydropower plants (<15 MW) is notable (CEE Bankwatch Network, 2019[39]).

Regular EIAs are required to improve monitoring, planning and environmental standards for the construction of SHPPs. At present, SHPPs often do not undergo any type of EIA in Albania. As most SHPPs comprise a dam and a reservoir, these structures tend to affect land use, homes and natural habitats in the surrounding area. Many SHPPs lack fish passes, and thus obstruct fish migration and drive down fish populations. Operating a hydroelectric power plant – even a small one - can also change the water temperature and the river's flow. Reservoirs may cover people's homes, important natural areas, agricultural land and archaeological sites. Methane, a strong GHG, may also form in some reservoirs and be emitted to the atmosphere (USGS Science for a Changing World, 2018[40]). SHPPs also reduce water availability for other uses for local communities. For example, an SHPP in the Quarishte and Rapuni rivers led to a shortage of water for irrigation and limited water availability for a cornflower mill used by local residents. As in the case of the Ternove hydropower plant close to the city of Bulqize, SHPPs can also cause deforestation and soil erosion (CEE Bankwatch Network, 2017[41]). Albania should ensure all SHPPs undergo EIAs prior to construction and carefully monitor fish passes and other environmental impacts.

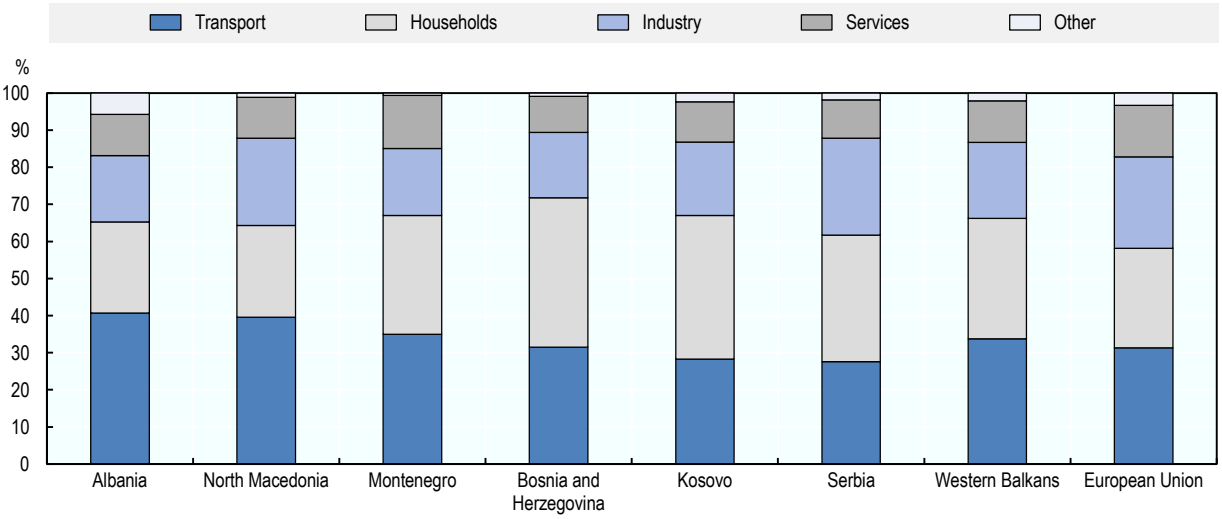
In addtion, careful evaluation of those subsidies for small hydropower plants which remain in place needs to determine whether those subsidies are justified. Even though feed-in-tariffs for new SHPP were discontinued in 2021, hydropower plants above 15MW can still benefit from feed-in-premiums and existing SHPPs will continue to benefit from feed-in tariffs for at least ten more years. Feed-in-tariffs for SHPPs in Albania are set 30% above the base price (the price on the Hungarian power exchange) and the amount of subsidies for SHPPs (the payments above the base price only) amounted to EUR 27 million in total in 2019. Thus, SHPPs will receive at least EUR 270 million in subsidies going forward, probably more since there have been new investments in SHPPs before 31 December 2020 (WWF Adria/Eco-Albania research team, 2020[38]).

15.8. Improve, modernise and decarbonise Albania's transport system

Albania's transport sector is very energy-intensive and polluting. In 2019, this sector accounted for 40.7% of final energy consumption – the highest share in the Western Balkan region and above the EU average (31.3%) (Figure 15.4). Some 87% of fuels used in Albania's transport sector are oil products; 13% are biofuels and waste (IEA, 2021[3]). In 2005, Albania's transport sector accounted for 23.5% of total GHG emissions, with data showing a rising trend to 25.5% in 2009 (latest data available). At 97.5%, road transport accounts for, by far, the largest share of transport GHG emissions (Republic of Albania, 2016[42]).

Figure 15.4. The transport sector accounts for a larger share of final energy consumption in Albania than in other Western Balkan economies

Final energy consumption by sector (%), 2019



Source: Eurostat (2021[1]), Eurostat (database), https://ec.europa.eu/eurostat/.

StatLink https://stat.link/04okvb

Promoting the use of newer and less-polluting passenger cars is a key action point for Albania. People in Albania rely heavily on second-hand passenger cars for transport. As incomes rise, many people make it a priority to acquire a car. In fact, the number of passenger cars almost quadrupled, from 114 532 in 2000 to 436 013 in 2016 (UNECE, 2018[10]). The average age of cars in the capital city Tirana is 13 years (German Cooperation et al., 2020[43]), compared with an EU average of 11.5 years (ACEA, 2021[44]). Some 60% of newly registered cars in Albania are estimated to be second-hand cars from other countries, mainly from Italy (UNECE, 2018[10]).

Albania should modernise and upgrade its railway system to help reduc transport emissions. Rail transport in Albania is neglected: the railway network has not benefited from any major overhaul since its construction, which started in 1947. It currently only allows for travel speeds below 60 km/h. It has not been electrified and its telecommunication and signalling system is obsolete, causing frequent interruptions in traffic. The capital of Tirana has no rail service due to the poor state of the system overall and to renovation works. Electrification of Albania's main railway line between Tirana and the main port, Durres, is of vital importance (WIBF, 2021[45]; UNECE, 2018[10]).

Likewise, modernising and decarbonising Albania's urban public transport system would also be important. The state of urban public transport in Albania, particularly in Tirana, is poor. With light rail and trams non-existent, public transport in Tirana relies entirely on buses. The service frequency and quality of vehicles have been improved, but buses remain overcrowded and the number of dedicated bus lanes is limited. Segregated busways and interchange nodes for buses are also lacking. Connections between central Tirana and the outskirts – in many cases, populated by informal migrants – are often poor (German Cooperation et al., 2020[43]). In this context, there is a need to promote non-motorised transport modes while also electrifying and improving the efficiency of public transport.

Several strategic documents aim to improve Albania's transport system. The Sustainable Urban Mobility Plan for Tirana – a particular hotspot of traffic congestation and air pollution – was completed in July 2020 and has a vision for mobility in of the city to 2030. A key focus is expanding the coverage and

capacity – while improving performance and attractiveness – of public transport (German Cooperation et al., 2020[43]). Albania also has a National Transport Plan, the second review of which was adopted in January 2020. A range of measures to improve public transport systems were included in Albania's latest (2016) UNFCCC report. Importantly, Albania aims to: rehabilitate existing roads and construct new roads; increase the share of public transport for passengers and freight transport (road, railway and waterways); increase taxes for newly registered, second-hand cars; and develop an integrated, intermodal transport system (land, road and sea) through public-private co-operation (Republic of Albania, 2016[42]). Albania's Economic Reform Plan 2021-2023 includes several measures to improve the transport system. Two key aspects are a feasibility study for installing charging stations for electric vehicles (EVs) and plans to electrify urban and inter-city transport lines in Tirana, Vlora and Durres (Republic of Albania - Council of Ministers, 2021[31]).

15.9. Indicators to monitor overall policy progress in Albania

To monitor progress in implementing policies for a green recovery in Albania, the OECD suggests a set of key indicators, including values for Albania and benchmark countries (either the OECD or EU average, based on data availability; data from Croatia are the benchmark for the number of renewable self-consumers per 100 000 population) (Table 15.2).

Table 15.2. Indicators to monitor progress in implementing policies in Albania

2019, unless otherwise specified

Indicator	Albania	Benchmark value
CO2 emissions per capita (tonnes per capita)	**1.20	**7.64[a]
CO2 emissions per unit of GDP (kg/USD 2015 PPP)	**0.0936	**0.1867[a]
Mean exposure to PM 2.5 air pollution (µg/m^3)	18.50	13.90[a]
Years of life lost (YLL) per 100 000 inhabitants attributable to exposure to PM2.5 pollution	*****2033	*****1074[b]
Subidies for coal (EUR/MWh)	0	-
Market share of the largest generator in the electricity market (% of total generation)	-	44.79[b]
Renewables (% of electricity generation)	100.00	34.94[b]
Solar and wind (% of electricity generation)	0.43	17.66[b]
Renewable self-consumers per 100 000 population	*0.0000	**36.9391[c]
Space heating using renewables and waste (fuelwood) (% of total)	***35.00	***27.00[b]
Transformation and distribution losses (% of primary energy consumption)	5.24	22.92[b]

Note: *2021, **2020, ***2018, ****2017, *****2016. [a]OECD, [b]EU, [c]Croatia.
Source: Eurostat (2021[1]), Eurostat (database), https://ec.europa.eu/eurostat/; IEA (2021[3]), Data and statistics, www.iea.org/data-and-statistics; EEA (2019[46]), Air quality in Europe — 2019 report, www.eea.europa.eu/publications/air-quality-in-europe-2019; Energy Community Secretariat (2021), www.energy-community.org/regionalinitiatives/WB6/Tracker.html; Miljevic (2020[47]), Investments into the past, https://energy-community.org/dam/jcr:482f1098-0853-422b-be93-2ba7cf222453/Miljevi%25C4%2587_Coal_Report_122020.pdf; Miljević, Mumović, Kopač (2019[48]), Analysis of Direct and Selected Indirect Subsidies to Coal Electricity Production in the Energy Community Contracting Parties, https://www.energy-community.org/dam/jcr:ae19ba53-5066-4705-a274-0be106486d73/Draft_Miljevic_Coal_subsidies_032019.pdf; Slok, M. (2021[49]), Incentives and challenges in promoting self-consumption - The case of Croatia, www.energy-community.org/; World Bank (2021[50]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators.

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Notes

[1] Building typology refers to the study and documentation of sets of buildings classified by similarities in their type of function or form.

[2] Information from fact-finding in Albania from expert consultants from CENER21.

[3] The UN Economic Commission for Europe [UNECE] Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters.

[4] Information from fact-finding in Albania from expert consultants from CENER21.

[5] The variable premium paid to renewable energy producers under the contract-for-difference scheme is the difference between the tariff under which the renewable energy producer was declared successful in the competitive tender process (auction) (the strike price) and the market price for electricity (the reference price).

[6] In 2017, ERE set this price at EUR 10.00/MWh for solar energy and EUR 76.00/MWh for wind power. In 2019, ERE changed these prices to EUR 71.20/MWh for solar energy, EUR 100.025/MWh for floating PV solar plants and EUR 61.00/MWh for existing hydropower priority producers.

[7] Half of the electricity generated from this project will be sold to a local distributer at EUR 59.90/MWh for 15 years; the rest will be sold on the retail market.

[8] Half of the plant's 140 MW capacity will be contracted through the support scheme for 15 years at a price of EUR 24.89/MWh; half of the output is to be sold on the free market.

[9] Information from fact-finding in Albania from expert consultants from CENER21.

16 A green recovery in Bosnia and Herzegovina

Despite important progress towards cleaner forms of energy, Bosnia and Herzegovina remains committed to a significant share of future electricity production from coal. Its enhanced Nationally Determined Contribution includes about 1 GW of new coal-fired power plants to be built by 2030. This chapter presents key policy priorities to ensure a green recovery for Bosnia and Herzegovina through the energy transition. A significant reduction in greenhouse gas emissions and air pollution requires the elimination of very high subsidies for coal-fired power and the development of a comprehensive strategy. Such a strategy must be backed by a legal and regulatory framework that is unified and harmonised at the state level, thereby replacing the current fragmentation between entities and cantons. Bosnia and Herzegovina needs stronger financial incentives and simplified administrative procedures for the deployment of intermittent renewables such as solar and wind, as well as for energy efficiency improvements in buildings. To integrate a growing share of intermittent wind and solar power into the electricity mix, transmission and distribution grids need to be upgraded to a higher level of flexibility. It is also essential that energy reforms be driven by domestic societal consensus and political will.

The Initial Assessment of the Multi-dimensional Review (MDR) of the Western Balkans identified a green recovery as a top policy priority for Bosnia and Herzegovina and the Western Balkan region as a whole. Energy and air pollution are complex challenges and significant obstacles to future economic development and well-being. Air pollution, unreliable access to clean energy and unsustainable environmental practices were identified as key constraints in Bosnia and Herzegovina and the Western Balkan region in the Initial Assessment. A high carbon-intensity in combination with low levels of energy efficiency results in considerable air pollution and greenhouse gas (GHG) emissions in Bosnia and Herzegovina. The share of solar and wind power in the energy mix remains low. Building on the initial assessment, the "From Analysis to Action" phase of the project provides policy suggestions to ensure a green recovery in Bosnia and Herzegovina and in the other Western Balkans economies. The peer-learning workshops on green recovery served three complementary aims: to identify problems hampering the green recovery; to identify key policy challenges; and to put forward key policy priorities for Bosnia and Herzegovina and for the region (Figure 16.1).

In recent years, Bosnia and Herzegovina has already taken various measures across several dimensions to support a green recovery. In preparation of the 26th Conference of Parties (COP26) of the UN Framework Convention on Climate Change (UNFCCC) in 2021, Bosnia and Herzegovina adopted an enhanced Nationally Determined Contribution (NDC) including, most importantly, a more ambitious GHG emissions reduction target. In 2017, the Framework Energy Strategy of Bosnia and Herzegovina 2035 was adopted as the key strategic document for the energy sector. The strategy defines priorities for the energy sector and goals for clean technologies, energy efficiency and renewable energies. In addition, energy efficiency legislation is already in place in both Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH). Support schemes for energy efficiency improvements for households (residential buildings) and businesses (commercial properties) exist in the Canton of Tuzla and are planned for the Canton of Sarajevo. Energy efficiency funds have been established: the Environmental Protection Fund in FBiH and the Environmental Protection and Energy Efficiency Fund in RS.

To ensure a fully green recovery, Bosnia and Herzegovina must now tackle a set of important challenges that remain. At present, the legal, regulatory and policy framework for energy and climate remains incomplete; it is also fragmented across entities and cantons, and existing legislation is not always enforced. Energy and climate policy making in Bosnia and Herzegovina is not sufficiently inclusive; the government should take action to raise awareness and improve public consultations. Importantly, Bosnia and Herzegovina lacks a comprehensive strategy for replacing coal with cleaner alternatives. Subsidies for coal in the economy are the highest in the Western Balkan region even though the productivity levels of coalmines are low. Taxes on both diesel and petrol are also low in relation to international averages. An outdated electricity grid, an inflexible electricity system, and complex and cumbersome administrative procedures hamper investment in renewables and much scope exists to improve renewable support schemes. Policy efforts, support and financing for energy efficiency in buildings remain limited (Figure 16.1).

Figure 16.1. Towards a green recovery in Bosnia and Herzegovina and the Western Balkans



Note: Purple = policy actions based on priorities expressed by participants of the peer-learning workshop. Orange = policy actions suggested by the OECD.
Source: Authors' elaboration based on OECD green recovery peer-learning workshop.

Seven policy priorities have great potential to ensure a green recovery in Bosnia and Herzegovina, with the development of a comprehensive strategy, backed by a holistic and harmonised legal and regulatory framework, for a low-carbon transition being the key priority. These policy priorities reflect issues raised by participants from Bosnia and Herzegovina at the green recovery peer-learning workshop (Box 16.1):

- Develop a comprehensive strategy, backed by a holistic and harmonised legal and regulatory framework, for a low-carbon transition (peer-learning priority)
- Improve co-ordination and dialogue in energy and climate policy making
- Phase out subsidies for coal and step-up carbon pricing
- Improve the design of support mechanisms for renewables
- Improve the enabling environment for renewables
- Make energy efficiency in buildings a policy priority
- Enhance incentives and support for energy efficiency improvements in residential and commercial buildings

Box 16.1. Outcomes of the green recovery peer-learning workshop – Bosnia and Herzegovina

Participants from Bosnia and Herzegovina (representing government, the private sector and civil society) at the OECD green recovery peer-learning workshop identified the development, adoption and implementation of an appropriate legal framework for energy and climate as the top priority for the economy. They suggested an action plan that could complement current policy efforts including, more specifically, four actions with corresponding monitoring indicators and measures (Table 16.1).

Table 16.1. Development, adoption and implementation of a legal framework for energy and climate

Action plan, monitoring indicators and measures

Actions	Monitoring indicators and measures
Action 1: Establish implementation and monitoring mechanisms	• Number of trainings organised for modelling staff • Modelling centre(s) established • Implementation of the legislative framework for a monitoring mechanism (including clearly defined obligations) • Improved capacity building in government institutions
Action 2: Revise supporting schemes for renewable energy sources	• Adoption of renewable energy legislation (harmonised with EU legislation): replacing feed-in tariffs (FiTs) with market-based incentives • Number of households installing solar photovoltaic (PV) systems on rooftops with connections to the grid
Action 3: Organise of public consultations	• Number of public consultations organised
Action 4: Ensure consequences in case of non-implementation of existing rules	• Number of identified and processed potential corruption cases • Increase transparency • Enhance individual responsibility

Source: OECD peer-learning workshops.

To advance towards the overarching goals, peer-learning participants stressed that Bosnia and Herzegovina needs a National Energy and Climate Plan (NECP) that defines a clear strategy for phasing out coal – rather than construction of new coal-fired power plants. They also emphasised the importance of including a financing strategy and pilot projects in this NECP. In turn, they raised the need to revise renewable support schemes, including defining different schemes for large- and small-scale renewables and renewable quotas. To determine how much energy is produced from renewables, Bosnia and Herzegovina also needs a regional system of guarantees of origin. The government could also make better use of international treaties and the Energy Community.

According to peer-learning participants, prioritising implementation of existing energy and climate legislation is critical. In Bosnia and Herzegovina, this implies the need for impartial courts, for less politics and more expertise in the development of energy sector legislation, for improved monitoring, for depoliticising public energy companies and for ensuring that environmental inspections are properly carried out.

Finally, participants stressed the importance of raising public awareness on energy and climate policies and ensuring inclusion of all relevant stakeholders in energy and climate policymaking. Improved awareness raising requires finding ways to stop the spread of misinformation (e.g. “coal is cheap” may reflect its price but fails to capture its societal costs) and more competition in the media sector. Improved public consultation is needed to enhance co-ordination and collaboration among government

institutions, the private sector and civil society. Awareness rising and more inclusive energy and climate policymaking are particularly important in the context of developing Bosnia and Herzegovina's NECP.

Source: OECD peer-learning workshops.

This chapter is divided into eight sections. Sections 16.1 through to 16.7 provide policy implications across the seven priorities through a prism of challenges specific to Bosnia and Herzegovina. Section 16.8 provides indicators against which progress in policy implementation in Bosnia and Herzegovina can be measured. This chapter is complemented by the regional chapter (Chapter 14), which provides more specific policy options for the priorities based on international practice that may be applied, with necessary adaptations, also to Bosnia and Herzegovina.

16.1. Develop a comprehensive strategy, backed up with a holistic and harmonised legal and regulatory framework for a low-carbon transition in Bosnia and Herzegovina

Bosnia and Herzegovina recently adopted a more ambitious emissions reduction target but does not envision coal phase out. In April 2021, Bosnia and Herzegovina submitted its enhanced NDC under the Paris Agreement to the UNFCCC, which is more ambitious than the first NDC. It pledges to reduce GHG emissions by 33.2% to 36.8% by 2030 and by 61.7% to 65.6% by 2050 (compared with 1990 levels). Emissions reduction efforts focus on power, district heating, buildings, industry, transport, forestry, agriculture and waste. Bosnia and Herzegovina's enhanced NDC also foresees adding new wind, solar, biomass and hydro capacity by 2030. However, Bosnia and Herzegovina's enhanced NDC also encompasses the construction of 1 050 MW of new coal-fired TPPs until 2030 (UNDP Bosnia and Herzegovina, 2021[1]; UNFCCC, 2021[2]). Establishing a GHG inventory and a GHG reporting, monitoring and verification mechanism will be key for measuring progress towards meeting the enhanced NDC. At present, Bosnia and Herzegovina is finalising a GHG inventory for 2015-2016 and a GHG reporting, monitoring and verification mechanism is under development.

To comply with the Sofia Declaration and to achieve carbon neutrality by 2050, Bosnia and Herzegovina requires a comprehensive strategy for phasing out coal. In November 2020, Bosnia and Herzegovina signed the Sofia Declaration and committed to align its own goals with the EU's energy transition and climate neutrality target for 2050 (see Box 14.5 of Chapter 14). However, in 2019 62.7% of electricity in Bosnia and Herzegovina was generated from coal. The key strategic document for the energy sector – the Framework Energy Strategy of Bosnia and Herzegovina 2035[1] – as well as Bosnia and Herzegovina's enhanced NDC aim to maintain and even expand reliance on coal for electricity generation. Currently, several new coal-fired thermal power plants (TPPs) are being constructed in Bosnia and Herzegovina: cogeneration units in TPP Tuzla (Block 7 with a capacity of 450 megawatts [MW]) and in TPP Kakanj (Block 8, 300-350 MW) and a replacement block in TPP Gacko (Block 2, 350 MW). Preparations are ongoing for construction of three additional coal-fired TPPs: Banovići (350 MW); Ugljevik 3 (600 MW); and Kamengrad (350 MW)[2] (Energy Community Secretariat, 2020[3]; European Commission, 2020[4]).

Replacing coal with cleaner technologies requires a reliable solution for producing baseload power to ensure a stable electricity supply. Electricity generation from coal currently secures a stable energy supply for Bosnia and Herzegovina. Proposed construction of new coal TPPs aims to increase security of energy supply.

To improve energy and climate policymaking in Bosnia and Herzegovina, state-level competencies should be strengthened, along with the co-ordinating function of state-level institutions. Lack of a holistic approach to energy, climate and environmental policymaking is one of the biggest obstacles to a low-carbon energy transition in Bosnia and Herzegovina. At present, each entity has primary responsibility for these policy areas. In FBiH, the competency for energy, climate and environmental policy making is further divided between federal and cantonal authorities. At the state level, the Division for Natural Resources, Energy and Environment within Bosnia and Herzegovina's Ministry of Foreign Trade and Economic Relations holds overall responsibility for energy, climate and environmental policymaking, but its competencies are limited to defining general principles, co-ordinating activities, and harmonising plans of entity institutions. Strengthening state-level competencies would allow for avoiding overlapping policy measures, plans and other strategic documents, and for the effective implementation economy-wide strategies (Knežević et al., 2019[5]).

Bosnia and Herzegovina's legal and regulatory framework for a low-carbon transition requires harmonisation and streamlining across entities. As a result of the division of competencies for energy and climate policymaking, the relevant legislative and regulatory framework is fragmented, inconsistent and lacks harmony across entities (European Commission, 2020[4]). Laws and regulations differ among FBiH, RS and Brcko District. In turn, strategic documents – such as renewable energy and energy efficiency action plans – are often passed at both the state and entity levels. Similarly, priority areas, goals and strategic objectives are not always harmonised. This fragmented policy framework prevents Bosnia and Herzegovina from implementing policies in accordance with the Energy Community Treaty – and ultimately from meeting its international obligations. The Framework Energy Strategy of Bosnia and Herzegovina 2035 aims to harmonise energy and climate legislation both at the entity level and with the *acquis communautaire* (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2017[6]). However, little progress has been made so far.

Bosnia and Herzegovina should finalise and adopt its NECP. Through its NECP 2021-2030, Bosnia and Herzegovina aims to define goals for energy efficiency, renewables and reducing GHG emissions, as well as to streamline climate and energy policies and align them with EU policies. The government has launched seven thematic working groups, including representatives from the government, the private sector, academia, civil society and donors, to develop the NECP[3] and has created a federal energy model and complementary entity energy models. A first draft of Bosnia and Herzegovina's NECP was submitted to the Energy Community Secretariat for review in November 2020. Bosnia and Herzegovina is currently in the process of defining targets for different NECP dimensions. In parallel, entity-level Energy and Climate Plans are being developed. Both, Bosnia and Herzegovina's NECP at the state-level and entity-level Energy and Climate Plans are planned to be adopted by the end of 2022. However, the legal basis for the adoption of the state-level NECP and entity-level Energy and Climate Plans has never been defined (Brnjoš, 2021[7]; Energy Community Secretariat, 2021[8]; Energy Community Secretariat, 2020[3]). Once Bosnia and Herzegovina's NECP has been adopted, the NDC will need to be updated and aligned with the targets set out in the NECP.

Building a broad consensus and strong political will are key ingredients for a successful green recovery. In Bosnia and Herzegovina, energy and climate reforms are often largely driven by international organisations and partners, rather than by a strong political will and a broad public consensus (UNECE, 2018[9]). This often means policies are adopted but not implemented, or remain mere formalities with little actual impact.

Existing legislation and commitments need to be fully enforced in Bosnia and Herzegovina. As a result of Bosnia and Herzegovina's complex constitutional structure, enforcement (or lack thereof) of existing legislation is an even larger challenge than in other Western Balkan economies. Many deadlines for the transposition and implementation of the *acquis communautaire* have already expired. The Energy Community Secretariat has initiated eight proceedings against Bosnia and Herzegovina for breach of contractual obligations in all areas of the Energy Community Treaty, including environmental protection,

electricity, state aid, energy efficiency, gas, sulphur content in fuels, and failure to transpose the provisions of the Third Energy Package (Bljesak.info, 2021[10]). For example, Bosnia and Herzegovina adopted a National Emissions Reduction Plan (NERP) 2018-2027 but is not complying with its ceilings for sulphur dioxide (SO2), dust (particulate matter or PM) and nitrogen oxide (NOX) emissions (Energy Community Secretariat, 2020[3]; Energy Community Secretariat, 2021[11]; USAID BiH, 2015[12]).

Adopting and regularly updating strategic documents on energy and climate is important. Bosnia and Herzegovina's Climate Change Adaptation and Low Emissions Growth Strategy 2025 (published in 2013), aims to implement (at the state level) adaptation measures to increase resilience to climate variability and long-term climate change (Radusin et al., 2013[13]). Bosnia and Herzegovina is planning to adopt an updated version of the Climate Change Adaptation and Low Emissions Growth Strategy 2030 in 2022; a draft has already been finalised. The National Renewable Energy Action Plan (NREAP) 2020 (published in 2016) defines (at the state level) renewable targets and renewable energy policy measures (Republic of Bosnia and Herzegovina, 2016[14]). The National Energy Efficiency Action Plan 2016–2018 (NEEAP) (published in 2017) sets goals (at the state level) for energy savings (Republic of Bosnia and Herzegovina, 2017[15]). Work on a new NEEAP 2019-2021 has largely been completed but the document had not yet been adopted at the time of writing. At the entity level, FBiH has already adopted its NEEAP for 2019-2021 whereas the adoption of the NEEAP for 2019-2021 is still pending in RS. The NEEAP 2019-2021 and the NREAP 2020 will be replaced by the NECP once it has been adopted. Bosnia and Herzegovina is currently in the process of drafting an Environmental Strategy and Action Plan 2030+ (at the state level), covering water, waste, biodiversity and nature conservation, air quality, climate change and energy, chemical safety and noise, resource management and environmental management. This document aims to improve environmental quality and the health of citizens and future generations (SEI, 2022[16]). The Third National Communication and Second Biennial Update Report on Greenhouse Gas Emissions of Bosnia and Herzegovina under the UNFCCC were adopted in 2017 and submitted to the UNFCCC Secretariat (UNDP, 2017[17]).

Bosnia and Herzegovina should fully enforce regulatory impact assessments and consider harmonising them across entities. Regulatory impact assessments critically assess the positive and negative effects of proposed and existing regulations and non-regulatory alternatives. They are an important element of evidence-based policy making and for preparing Western Balkan economies' accession to the European Union (OECD, 2021[18]). Regulatory impact assessments are in place in Bosnia and Herzegovina, at both the state level (since 2005) and the entity level (in RS since 2006 and in FBiH since 2014). However, they largely remain a mere formality or part of pilot projects and lack political support. Over two-thirds of the laws adopted between 2010 and 2014 in Bosnia and Herzegovina did not undergo regulatory impact assessments; for the remaining laws, regulatory impact assessments did not show positive effects on law enforcement. Finally, regulatory impact assessments differ across entities and civil servants lack awareness and knowledge on them (Ramić, 2019[19]).

Higher sanctions for non-compliance with environmental permits and other environmental offences could reduce violations of permit conditions and environmental misconduct. At present, sanctions following the violation of permit conditions by environmental permit holders (e.g. for air emissions, waste, water and forest felling) range from EUR 500 to EUR 5 000 in Bosnia and Herzegovina. Often, this relatively low amount means permit holders prefer to pay sanctions rather than invest in technology required to meet environmental standards (UNECE, 2018[9]). Further, no specific sanctions exist for the unregulated incineration of waste, especially of plastic, waste tires and agricultural waste – another problem present throughout Bosnia and Herzegovina.

16.2. Improve co-ordination and dialogue in energy and climate policy making

Designing sound green recovery policies requires greater co-operation and co-ordination with civil society and business associations and among institutions in energy and climate policy making in Bosnia and Herzegovina. Co-operation and co-ordination needs to be improved in energy and climate policy making, implementation and monitoring. Civil society organisations (CSOs) in Bosnia and Herzegovina are mainly active in awareness raising and education on energy, climate and environmental issues and policies; their participation in relevant policy design and development is limited. Neither CSOs nor private sector representatives do participate in meetings of the Inter-Entity Coordination Body for the Environment, an entity responsible for coordination of all environmental matters which require concerted efforts of the entities. Further, CSOs are not represented on the supervisory boards of the entity environmental funds. They do not receive any financial support from environmental authorities at the entity level (UNECE, 2018[9]; GIZ, 2017[20]).

Public consultations should be organised earlier in the process of drafting and adopting climate and energy legislation and the effectiveness of public consultations should be ensured. Public consultations can raise awareness of the need for a green recovery and ultimately improve the quality of regulations and laws, as well as enhance the transparency, efficiency and effectiveness of regulations. By improving public acceptance of laws and regulations, they facilitate enforcement and implementation (OECD, 2011[21]). In 2016, the Council of Ministers of Bosnia and Herzegovina adopted the Rules for Consultations in the Drafting of Legal Regulations (Bosnia and Herzegovina, 2017[22]), which stipulate that draft regulations and laws – including those related to energy, climate and environment – must undergo public consultations through the web application *eKonsultacije* before they can be formally adopted. The public can submit written comments on draft regulations and laws through this website. In praxis, however, as public consultations are open only at the end of the drafting process – i.e. shortly before laws and regulations are adopted – public suggestions and comments are often not taken into account. In most cases, public consultations remain mere formalities and rarely prompt changes before laws and regulations are adopted. More effort is required to raise public awareness of public consultations. In turn, capacity building is required at all levels of government on how to regularly use public consultations as a tool for policymaking (European Commission, 2020[4]).

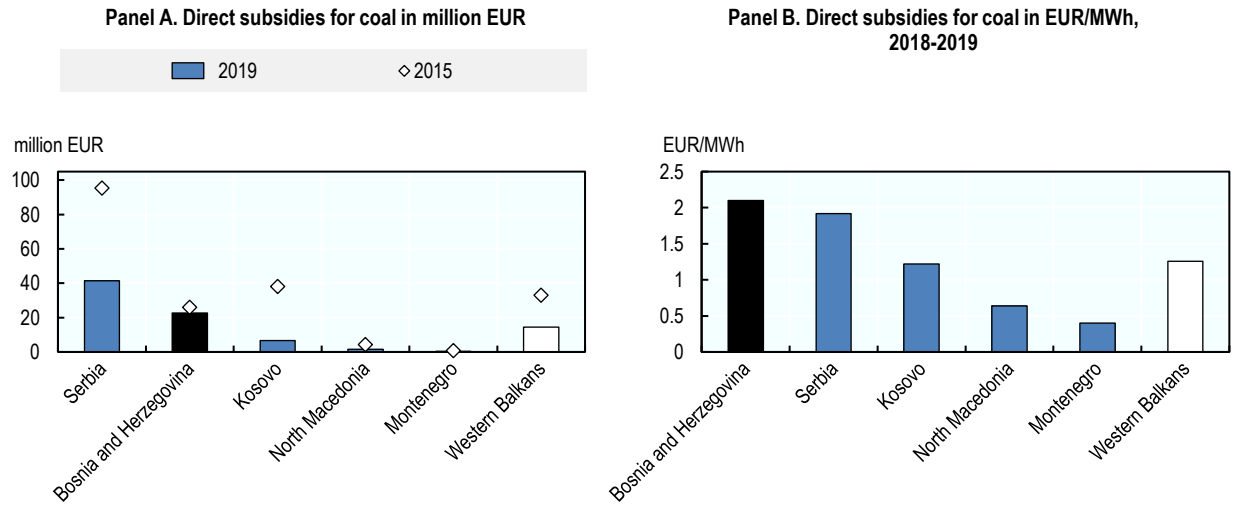
Bosnia and Herzegovina can draw useful examples on transparency reform from other countries. In Estonia, public consultations take place at an earlier stage of the development of new laws and regulations. All steps in the legislative process conducted by the government and parliament are public and Estonian citizens can track online from the initiation of a legislative proposal to the official publication of a regulation in the State Gazette. A range of online tools engage stakeholders in regulation making and support the accessibility of regulations, including an online list of laws to be prepared, modified, reformed or repealed. The Electronic Coordination System for Draft Legislation (EIS) comprises an interactive website for public consultations and an online version of the official State Gazette. It allows any citizen to follow the development of a draft legal act, search for documents in the system and give their opinion on the documents open for public consultation (OECD, 2016[23]).

16.3. Phase out subsidies for coal and step up carbon pricing

Going forward, it would be important to start phasing out subsidies for coal in Bosnia and Herzegovina. Local coal mines supply much of the fuel for coal-fired TPPs; many have low productivity levels and depend heavily on subsidies. In 2015, average productivity was 553 tons of coal per full-time employee (t/FTE) in FBiH and 3 144 t/FTE in RS compared with 4 416 t/FTE as the EU average. At EUR 2.1 per megawatt hour (/MWh), subsidies for coal in Bosnia and Herzegovina are the highest in the region (Figure 16.2). The government's total coal subsidy bill amounted to EUR 22.7 million in 2019 (0.11% of GDP), only a slight decrease from EUR 26 million in 2015. Over the period 2015 to 2019, total coal

subsidies amounted to EUR 167.6 million (EUR 33.5 million annually on average) (Miljević, 2020[24]). In addition to direct subsidies for coalmines, Bosnia and Herzegovina indirectly subsidises coal through non-payment of CO_2 emissions fees by coal-fired TPPs. In 2017 alone, coal-fired TPPs were exempted from paying EUR 177.5 million in CO_2 emissions compensation.[4] Between 2015 and 2017, indirect subsidies amounted to EUR 231.6 million or EUR 26.08/MWh (Miljević, Mumović and Kopač, 2019[25]).

Figure 16.2. Subsidies for coal in Bosnia and Herzegovina are among the highest in the Western Balkan region



Source: Miljevic (2020[24]), Investments into the past - An analysis of Direct Subsidies to Coal and Lignite Electricity Production in the Energy Community Contracting Parties 2018–2019, https://www.energy-community.org/dam/jcr:482f1098-0853-422b-be93-2ba7cf222453/Miljevi%C4%87_Coal_Report_122020.pdf.

StatLink https://stat.link/vkud5m

Electricity prices that reflect production costs would encourage energy savings and improve public finances. Subsidies for coal in Bosnia and Herzegovina result in electricity prices that do not reflect production costs. In 2018, electricity prices were EUR 74.40/MWh for households and EUR 65.30/MWh for industry.[5] The practice of charging low prices for electricity means financial resources for energy infrastructure maintenance and development are scarce. Furthermore, low prices do not encourage investment in renewables and energy efficiency measures in buildings to save electricity.

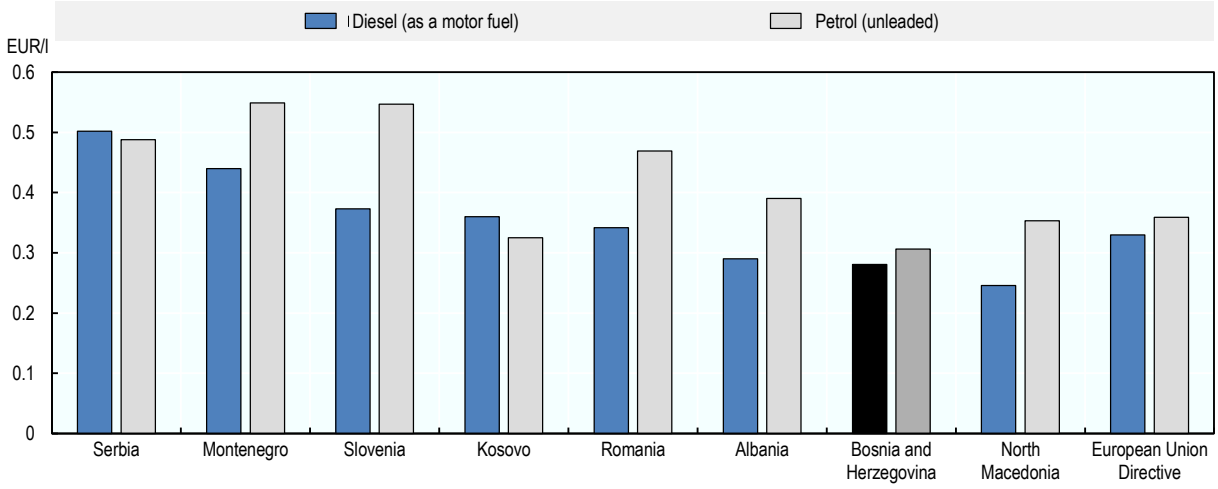
To reduce the negative socio-economic impact of coal mine closures on miners and coal-dependent regions, it is important to compensate miners who become unemployed through retraining programmes and the creation of new jobs that match their skill sets (see Section 14.2.4 of Chapter 14) (Szpor, 2021[26]; Szpor, 2018[27]). For decades, coal mining has been an important segment of Bosnia and Herzegovina's energy sector and played an important role its economic structure. In 2015, coalmines employed 13 731 workers while an even larger number of people, including families of miners, depended indirectly on coal mining.[6] Phasing out coal for electricity generation would result in mine closures and a significant number of jobless miners. Creating new economic pathways for these regions will require taking these factors into account and creating new professional development opportunities for jobless coalminers, with retraining playing an important role. The European Commission's Initiative for Coal Regions in Transition in the Western Balkans and Ukraine (see Chapter 14, Section 14.2.4.) and the EBRD's just transition initiative[7] could play an important role in this process, for example, through peer exchanges with other countries in the region and trainings for re-skilling and up-skilling of coal workers. In addition, the World Bank's is supporting Bosnia and Herzegovina through the elaboration of a Roadmap

for the transition of coal-rich regions in Bosnia and Herzegovina in collaboration with the state- and entity-level ministries of energy.

Bosnia and Herzegovina should consider increasing excise taxes on fuels. At present, Bosnia and Herzegovina has among the lowest excise taxes on both diesel (EUR 0.28 per litre [/l]) and petrol (EUR 0.31/l) in the Western Balkan region, both of which are below the minimum prescribed (EUR 0.33/l) by the EU Energy Taxation Directive (Figure 16.3). As noted, the excise tax on diesel is lower than on petrol, even though diesel is more polluting (World Bank, 2020[28]). Increasing excise taxes on fuels would reduce pollution while also generating additional resources for investment in low-carbon technologies. Reflecting the importance that EU countries give to carbon taxation, Germany introduced (in January 2021) a carbon tax equal to EUR 25 per megatonne of carbon dioxide (/Mt CO_2) for the transport and heating sectors (i.e. covering petrol, diesel, heavy fuel oil and natural gas). From 2026, auctions will replace the fixed price within a price corridor set at EUR 55 to EUR 65/Mt CO_2 (Franke, 2020[29]).

Figure 16.3. Excise taxes on fuels in Bosnia and Herzegovina are among the lowest in the Western Balkan region

Excise taxes on fuels (EUR/l)



Source: World Bank (2020[28]), Environmental Tax Reform in North Macedonia, https://openknowledge.worldbank.org/handle/10986/34679.

StatLink https://stat.link/l4qu01

Poor households should be compensated for higher electricity and fuel prices. Subsidies for coal and fuel, which lead to low electricity and fuel prices, serve as indirect income support for households. However, they are highly inefficient as a measure for poverty reduction since most of the benefits go to higher income households that use more energy. Poor households could be compensated for higher electricity prices through targeted, income-based support, such as social benefits or vouchers for a monthly allowance of electricity consumption. Subsidies for energy efficiency improvements, such as low-carbon heating technologies and insulation of residential buildings, could reduce actual energy consumption of poor households – and thus lower their electricity bills (OECD, 2021[30]).

16.4. Improve the design of support mechanisms for renewables in Bosnia and Herzegovina

Scaling up modern renewable energy technologies such as wind and solar power – as opposed to traditional sources such as fuel wood – is important to a green recovery for Bosnia and Herzegovina. In 2019, renewables and biofuels accounted for 37% of electricity generation in Bosnia and Herzegovina and for 37.6% of gross final energy consumption (Eurostat, 2021[31]). However, biomass (most importantly fuel wood for heating and cooking) accounts for a large share of renewables in gross final energy consumption (Energy Community Secretariat, 2021[11]). Hydropower accounted for 95.5% of electricity from renewables while wind power accounts for only 3.9% and solar power for 0.5% (Eurostat, 2021[31]). Large hydropower (over 10 MW of installed capacity) accounts for 74% of installed hydropower capacity, small hydropower plants (SHPPs, up to 10 MW) for 7.2% and pumped storage for 18.8% (Energy Community Secretariat, 2021[11]). Only one wind farm operates in FBiH; to date, RS has none (CEE Bankwatch Network, 2019[32]).

Shifting to market-based support mechanisms for renewables in Bosnia and Herzegovina could enhance efficiency. At present, renewables are supported in Bosnia and Herzegovina by FiTs, which have been administratively set for 12 (FBiH) or 15 (RS) years. Throughout this period, priority producers are guaranteed a fixed price for electricity they produce (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2016[33]). In addition, RS uses fixed feed-in premiums (FiPs) allocated through auctions for renewables, which are also guaranteed for 15 years but require that producers find buyers on the market. The eligibility for FiTs varies by entity: solar plants (up to 1 MW), biomass and biogas power plants and wind farms are eligible in FbiH. With the entry into force of RS's new Law on Renewable Energy Sources, SHPPs, ground-mounted solar power plants and wind farms (up to 150 kW) and rooftop solar, biomass and biogas power plants (up to 500 kW) are eligible in RS (CEE Bankwatch Network, 2019[32]). All renewable power plants with a larger capacity up to 50 MW can benefit from FiPs in RS. In addition, renewable energy communities or energy cooperatives can also benefit from FiPs even with an installed capacity below 150 kW in RS (Balkan Green Energy News, 2022[34]).

Bosnia and Herzegovina is in the process of preparing the introduction of renewable auctions. Renewable auctions are expected to result in lower purchase prices of electricity from renewables and could enhance transparency and efficiency in the selection process of suppliers of renewable energy. FiTs could be maintained for small-scale renewable installations. A renewable quota requiring electricity suppliers to buy a certain amount of electricity generated from renewables could help create a market (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2017[6]).

Effective net-billing schemes for renewable self-consumers are needed in Bosnia and Herzegovina. At present, only RS has a net-metering scheme for self-consumers, which applies only to installations up to 50 kilowatts (kW) (FBIH has no such scheme). To date, only one self-consumer is registered in RS (Energy Community Secretariat, 2021[11]).

A more sustainable financing mechanism for renewable support schemes is needed. Currently, FiTs and FiPs in Bosnia and Herzegovina are financed through a levy for each kWh of electricity consumed, which is collected from consumers through their monthly electricity bills (BAM 0.001976/kWh in FBiH and BAM 0.0044/kWh in RS – the equivalent of BAM 1.00 to BAM 2.00 per month per household). Between 2015 and 2019, the collection of these levies amounted to EUR 62 million – an amount insufficient to fully finance FiTs. At the same time, political acceptance of the levy is low (Harbaš, 2017[35]; Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2016[36]). Market-based support mechanisms, such as auctions or FiPs, would increase competition thereby reducing prices and the amount of public financial resources required for subsidies.

Scope exists to increase the transparency of renewable support schemes in Bosnia and Herzegovina. Information on the allocation of FiTs (e.g. names of applicants and quota winners) as well as dynamic quotas (maximum level of installed capacity of different types of renewables supported through FiTs annually) are not available on the official government website (European Commission, 2020[4]). In FBiH, the body running the renewables support scheme (*Operator za obnovljive izvore energije i efikasnu kogeneraciju* [OIEiEK]) did not grant federal auditors access to the documentation required for a performance audit in 2019, for which the government banned the institution from making payments to renewables for several months. Support schemes for renewables are complex and lack transparency, particularly in FBiH (CEE Bankwatch Network, 2021[37]).

The planning, monitoring and evaluation of SHPPs in Bosnia and Herzegovina should be improved. In 2019, at least 110 SHPPs were operating in Bosnia and Herzegovina (37 in RS; 63 in FBiH) but they accounted for only 3.1% of electricity generation (CEE Bankwatch Network, 2019[32]; CEE Bankwatch Network, 2021[37]). Existing SHPPs are known to negatively affect ecosystems and biodiversity as they alter the flow of rivers, reduce fish populations (e.g. complete extinction of fish in the Ugar River) and sometimes result in river flows drying up completely. Environmental impact assessments (EIAs) prepared for construction permits of SHPPs are often deficient and entity and cantonal environmental authorities often fail to intervene even if they are aware of environmental damage by SHPPs (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2016[36]; UNECE, 2018[9]).

Bosnia and Herzegovina should consider phasing out remaining subsidies for SHPPs. In 2017, SHPPs received the largest share (81%) of subsidies for renewables in Bosnia and Herzegovina, to the detriment of other renewables such as wind power and solar energy (CEE Bankwatch Network, 2019[32]). FBiH suspended FiTs for SHPPs starting from 1 January 2021, redirecting the financial resources available to other renewable energy sources (Aarhus Center Association in Bosnia and Heregovina, 2020[38]; European Commission, 2020[4]; Spasić, 2020[39]). However, SHPPs can still sell the electricity they produce at a reference price 20% above the market price in FBiH; as such, they still benefit from an indirect subsidy (CEE Bankwatch Network, 2019[32]). Subsidies for SHPPs remain in place in RS.

16.5. Improve the enabling environment for renewables in Bosnia and Herzegovina

Harmonising and unifying fragmented strategic and legal frameworks would be important to promote renewables in Bosnia and Herzegovina. While the Framework Energy Strategy 2035 defines strategic priorities for renewable energies (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2017[6]),[8] Bosnia and Herzegovina does not have a law on renewable energies at the state level. Rather, support schemes are defined at the entity level through the Law on the Use of Renewable Energy Sources and Efficient Cogeneration of the Federation of Bosnia and Herzegovina, the Law on Renewable Energy Sources and Efficient Cogeneration of Republika Srpska and a new Law on Renewable Energy Sources in Republika Srpska, adopted in February 2022 (Federation of Bosnia and Herzegovina, 2014[40]; Republika Srpska, 2015[41]; Republika Srpska, 2013[42]). A draft Law on Renewable Energy Sources is currently also being prepared in the Federation of Bosnia and Herzegovina. Renewable energy action plans exist at both state and entity levels (Federal Ministry of Energy, Mining and Industry, 2014[43]; Republika Srpska, 2014[44]). Still, this fragmented legal framework hampers systematic planning and the development of a comprehensive strategy to scale up renewable energies. Adoption of action plans and strategic documents is time-consuming and deadlines are often missed.

Simplifying administrative procedures could facilitate investment in renewables in Bosnia and Herzegovina. A complex administrative apparatus represents a barrier to investment in renewables across the economy. The process of issuing authorisations, permits and licenses for renewables – for both large-scale installations and self-consumers – continues to be bureaucratic, time-consuming and unpredictable.

The process involves numerous institutions, many different steps and a large amount of documentation. A lack of vertical and horizontal communication among different levels of government exacerbates the challenges already identified. The large discretionary power of administrative bodies results in investors having to respond to numerous requests to submit "additional documentation", leading to even further delays. Simplifying administrative processes could promote more investment in renewables (European Commission, 2020[4]; USAID, 2015[45]). For this purpose, RS and FBiH already adopted reports with recommendations on improving administrative procedures and removing regulatory and non-regulatory barriers to the development of renewable energies[9] in 2018 and the implementation of the recommendations has started with the support of USAID.

Enhancing transparency and improving access to information on licensing and permitting processes for renewables is important. At present, the authorisation and licensing processes differ across entities, cantons and regions – and sometimes even between officials within the same institution. Investors often find it difficult to access information on procedures, documentation required and institutions involved. Many self-consumers who want to install solar panels opt to pay a third party who has previously gone through the process to help them obtain the necessary licenses and permits (European Commission, 2020[4]; USAID, 2015[45]). In order to improve transparency on the investment process, Bosnia and Herzegovina adopted Guidelines for Investors in the Electricity Sector, elaborated with the support of USAID, in 2018, which include information on the investment procedure for renewables, required permits and the competent authorities (USAID, 2021[46]).

To integrate significant wind and solar power in the electricity mix, transmission and distribution (T&D) grids in Bosnia and Herzegovina need to be adapted, expanded, modernised and upgraded. Wind and solar power are intermittent: the amount of electricity generated varies depending on the time of the day and from one day to another. In turn, wind and solar power plants are often located far away from the main centres of electricity consumption, requiring transmission over long distances before distribution. A third challenge is that electricity from distributed, decentralised home solar systems needs to be integrated to the distribution grid. Bosnia and Herzegovina's T&D grid was conceived for a relatively stable supply of electricity generated from centralised hydro and thermal power plants. Transmission lines in areas with high potential for wind and solar power (mainly in the south) to the main centres of consumption are not sufficiently developed (Energy Community Secretariat, 2021[11]). Bosnia and Herzegovina also needs to invest in management optimisation, installation of supervisory control and data acquisition (SCADA) systems, and the development of smart metering.

Modernising Bosnia and Herzegovina's electricity grid requires an adequate institutional and regulatory environment. Strengthening the institutional set-up is a prerequisite to facilitate modernising and upgrading the T&D grid: production and distribution of electricity are not yet separated and both roles are performed by the same SOEs. Market efficiency remains a challenge as Bosnia and Herzegovina does not yet have a day-ahead electricity market and prices remain regulated (Energy Community Secretariat, 2021[11]).

Bosnia and Herzegovina requires a more flexible electricity system to integrate more renewables in its electricity mix. In September 2020, the State Electricity Regulatory Commission of Bosnia and Herzegovina (SERC) increased the maximum capacity of wind and solar power plants that may be connected to the transmission network (from 460 MW to 840 MW for wind; from 400 MW to 825 MW for solar) (Energy Community Secretariat, 2020[3]). Integrating a larger share of variable renewables in the electricity mix requires making the system itself more flexible through better regional interconnection, storage facilities and integration of a larger amount of flexible generation technologies (e.g. flexible biomass, natural gas). A significant amount of pumped storage already exists in Bosnia and Herzegovina (420 MW) and the economy is well interconnected with the power systems of other countries in Southeast Europe. In the case of Bosnia and Herzegovina, optimal use of existing pumped storage hydropower facilities is vital to system flexibility; investing in additional pumped storage may be wise (Kušljugić, 2019[47]).

Raising awareness of the benefits of renewables and improving renewable support mechanisms could trigger more private investment in renewables. Citizen awareness of the benefits of renewables, as well as renewable energy policies and incentive schemes, remains low in Bosnia and Herzegovina. Many citizens are unaware that they pay levies for renewables through their monthly energy bills and increases in these levies are often overlooked. Communication about renewable energies by the media, independent experts and academia remains insufficient. Improved public awareness could enhance support for renewable policies and projects (Harbaš, 2017[35]). Raising awareness and informing electricity consumers about renewables through informational-motivational public campaigns is one of the strategic priorities of Bosnia and Herzegovina's Framework Energy Strategy 2035 is (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2017[48]).

16.6. Make energy efficiency in buildings a policy priority in Bosnia and Herzegovina

As the basis for energy efficiency improvements, Bosnia and Herzegovina should finalise its legislative framework for energy efficiency. Both FBiH and RS have adopted energy efficiency laws (Federation of Bosnia and Herzegovina, 2017[49]; Republika Srpska, 2015[50]; Republika Srpska, 2013[51]). However, the transposition of the EU Energy Efficiency Directive (EED) and the Energy Labelling Regulation remains incomplete across entities, and the adoption of the draft Energy Efficiency Law in Brčko District is pending. The transposition of regulations on eco-design and energy labelling has been initiated with the technical support of the EBRD's Regional Energy Efficiency Programme for the Western Balkans (REEP Plus). Bosnia and Herzegovina has finalised but not yet adopted a draft Building Renovation Strategy up to 2050, including four scenarios representing different levels of ambition for building renovation in Bosnia and Herzegovina. At the entity level, RS has adopted a long-term building renovation strategy, while the FBiH strategy remains at the draft stage. Bosnia and Herzegovina is also in the process of designing an energy efficiency obligation scheme[10] (a draft exits since 2015) but has not yet adopted any relevant secondary legislation (including a specific target and policy measures) (Energy Community Secretariat, 2020[3]; USAID, 2020[52]). In June 2019, Bosnia and Herzegovina adopted a decision on the establishment of the Energy Management System and Energy Efficiency Information System in central government buildings.

Accelerating implementation of existing legislation on energy efficiency is vital. Bosnia and Herzegovina submitted its third annual energy efficiency report to the Energy Community Secretariat in July 2019, which indicates limited progress in implementing existing legislation (Energy Community Secretariat, 2020[3]). In both FBiH and RS, energy efficiency laws foresee the inclusion of related criteria in public procurement processes of goods and services and in the construction of buildings. However, these criteria are not always applied in practice.[11]

16.7. Improve incentives and support for energy efficiency improvements in residential and commercial buildings

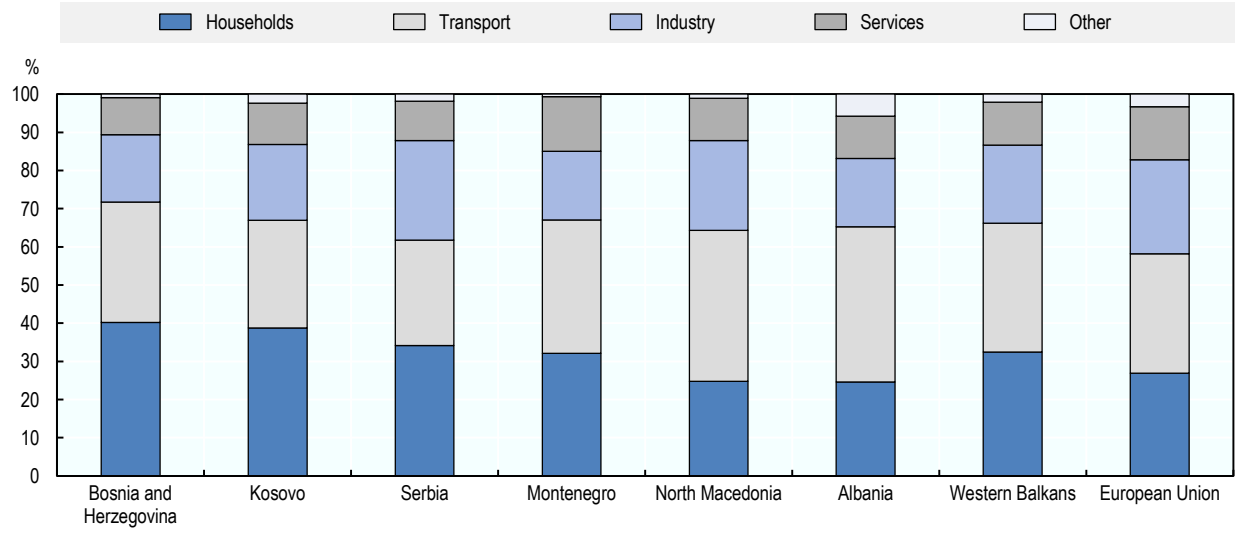
Most buildings in Bosnia and Herzegovina are outdated and have low levels of energy efficiency. Many buildings were built at times of relatively low energy prices and without taking into account energy efficiency criteria (Harbaš, 2017[53]; UNECE, 2018[9]). Comparing public and residential buildings located in similar climate conditions, on average, those in Bosnia and Herzegovina consume more than five times as much energy as those in EU countries. Close to 20% of Bosnia and Herzegovina's GDP is spent on energy, compared to just 4.75% as the EU average (USAID BiH, 2021[54]). Annual energy consumption for heating in Bosnia and Herzegovina range from 160 kilowatt hours per square meter (kWh/m2) to 180 kWh/m^2 (Harbaš, 2017[53]). The share of households in final energy consumption in Bosnia and

Herzegovina (40.2%) is the highest in the Western Balkan region (average of 32.4%) and much higher than the EU average of 26.9% (Eurostat, 2021[31]).

A reduction of heating based on fuel wood in inefficient devices could enhance energy efficiency in Bosnia and Herzegovina. Overall, more than 70% of households do not have central heating systems and rely on inefficient, mainly fuel-wood based devices for heating (Agencija za statistiku Bosne i Hercegovine, 2018[55]). In 2018, the share of renewables and waste (mainly fuel wood) in heating (82.2%) in Bosnia and Herzegovina was the second-highest in the Western Balkan region, following Kosovo; it is far above average (61.4%) for the region and almost triple the EU average (27%) (2018) (Eurostat, 2021[31]) (see Figure 14.8 of Chapter 14). The use of fuel wood for heating is higher in RS than in FBiH and Brcko District (Center for ecology and energy, CEE, 2016[56]).

Figure 16.4. Households account for a larger share of final energy consumption in Bosnia and Herzegovina than in other economies in the Western Balkan region and in the EU

Final energy consumption, 2019



Source: Eurostat (2021[31]), Eurostat (database), https://ec.europa.eu/eurostat/.

StatLink https://stat.link/rpgz7l

Expansion of district heating, in combination with the decarbonisation and modernisation of district heating systems, could improve energy efficiency. Derived heat accounts for 7.5% of heating in Bosnia and Herzegovina (Eurostat, 2021[31]), with about 12% of households connected to district heating systems. Close to half of existing district heating systems are fired by coal and lignite; natural gas accounts for more than 30% and biomass for close to 25% (the latter is the highest share among Western Balkan economies) (Energy Community Secretariat, 2021[11]). At present, consumption-based billing is not applied in most district heating systems (USAID, 2020[52]). While Bosnia and Herzegovina is relatively advanced in the use of biomass for district heating, much scope remains for replacing coal-fired district heating plants with cleaner alternatives, and for modernising and upgrading existing district heating systems.

A large number of households and businesses in Bosnia and Herzegovina require financial support for implementation of energy efficiency measures in residential and commercial buildings. To date, most energy efficiency measures for buildings in Bosnia and Herzegovina have focused on public buildings, with many programmes having been financed by international donors. Subsidies for households and businesses for energy efficiency improvements in residential and commercial buildings exist in the

Canton of Tuzla and are planned in the Canton of Sarajevo. Tuzla subsidises investments up to EUR 2 500 for energy efficiency improvements in residential and commercial buildings (e.g. to replace coal-fired boilers with heat pumps) and up to 50% of renewable energies for self-consumption. To benefit from subsidies, owners of buildings are required to have an energy audit carried out. In 2020, 125 applicants met the requirements to benefit from these subsidies. In January 2021, in the Canton of Sarajevo, the cantonal Ministry of Physical Planning, Construction and Environmental Protection and the United Nations Development Programme (UNDP) in Bosnia and Herzegovina launched a similar programme. For households in Sarajevo, the scheme will subsidise up to 70% of the total cost of replacing coal stoves and boilers with certified furnaces and boilers and up to 40% of the total cost of heat pumps (UNDP Bosnia and Herzegovina, 2021[57]). Several other donor-funded programmes support energy efficiency improvements in residential buildings.

Low levels of income and limited access to financing are key obstacles to scale up energy efficiency improvements in residential buildings in Bosnia and Herzegovina. Even when subsidies are available (as in the programmes in Tuzla and Sarajevo), households often experience difficulties in financing their share of the overall cost. A lack of financing mechanisms and high interest rates on bank loans hinder private sector investments in energy efficiency (UNECE, 2018[9]). Generally, funding for energy efficiency for households and businesses is available mainly from international financial institutions (IFIs) such as the European Investment Bank (EIB) and other EU development funds, the European Bank for Reconstruction and Development (EBRD), the German *Kreditanstalt für Wiederaufbau* (KfW) and the World Bank. Such funding is generally made available to borrowers through local financial institutions (Kušljugić, 2019[58]; Raiffaisen BANK, 2021[59]; USAID, 2021[60]).

Better access to financing for energy efficiency improvements in buildings is vital. Mobilising private financing through local communities, energy co-operatives and small- and medium-sized enterprises (SMEs) will be very important to scale up energy efficiency improvements (Kušljugić, 2019[58]). Energy Service Companies (ESCOs) could also play an important role in financing energy efficiency improvements (see Chapter 14, Section 14.4.3). As part of its Development Strategy (2021-2027), FBiH plans to provide funding support to foster the development of energy service company markets. In June 2021, Bosnia and Herzegovina further adopted the Framework for Financing Energy Efficiency Projects and Measures for Investments in Public Buildings, which could facilitate access to financing for energy efficiency measures in public buildings.

To improve access to financing, the budgetary resources of energy efficiency funds should be increased. Energy efficiency funds exist both in FBiH (the Environmental Protection Fund) and in RS (the Environmental Protection and Energy Efficiency Fund); however, the financial resources available to these funds are limited. In RS, the Environmental Protection and Energy Efficiency Fund is financed through 10% of the levy for stimulating renewable electricity production and efficient cogeneration, which is collected through electricity bills, and from fees collected for environmental protection (USAID, 2020[52]). RS's Environmental Protection and Energy Efficiency Fund further relies on donor funding: the fund signed several joint programmes with UNDP and the EBRD for energy efficiency improvements in public facilities between 2017 and 2022 (EBRD, 2022[61]; UNDP, 2017[62]). Budgets for these energy efficiency funds could be increased by raising levies charged via electricity bills in RS and introducing such levies in FBiH – a measure that would simultaneously provide incentives to save energy. Raising or introducing levies (in RS and FBiH respectively) on energy is likely to be more politically acceptable than increasing the value-added tax (VAT) or income taxes. Under its Law on Charges for Usage of Public Goods, Serbia introduced energy efficiency levies through electricity and gas bills as well as on gasoline (EUR 0.000127/kWh of electricity and EUR 0.00127 per cubic meter of natural gas and per litre of gasoline). Revenues collected are allocated to Serbia's energy efficiency fund (Balkan Green Energy News, 2019[63]).

Improved incentives could encourage more energy efficiency improvements in multi-apartment buildings. Bosnia and Herzegovina has the highest share of multi-apartment buildings in the Western Balkan region (46% of the residential building stock) (Energy Community Secretariat, 2021[64]). Management, maintenance and renovations of such buildings are regulated at the entity level in RS and at the cantonal level in the FBiH, with legislative and regulatory frameworks differing significantly not only between the entities but also across cantons within FBiH. Additionally, homeowner associations are recognised as legal entities in RS but not in FBiH and challenges linked to collective decision making hamper energy efficiency improvements in both cases. Major renovation works of common parts, including energy efficiency improvements, require the consent of all homeowners rather than a 50%+1 majority vote. Lack of technical support to address deficiencies in older multi-apartment buildings and complicated administrative procedures for renovation works are additional challenges. Reforming the legislative and regulatory framework for multi-apartment buildings has not been a policy priority in Bosnia and Herzegovina but needs to become one. All stakeholders – including apartment owners – should be involved in the reform process (USAID, 2020[52]).

Better access to financing for homeowner associations could facilitate more energy efficiency improvements in multi-apartment buildings. Difficult access to financing for energy efficiency improvements and the lack of reserve funds for both maintenance and investment in such improvements are important challenges in multi-apartment buildings. Generally, fees collected by homeowner associations for maintenance remain very limited and reserve funds are small. As homeowner associations are recognised as legal entities in RS, the banking sector started developing basic loan products for them; FBiH lags in this regard. Still, banks perceive homeowner associations as excessively risky in Bosnia and Herzegovina, which curtails realising their market potential. There is a need to educate and support local banks in developing loan products for homeowner associations. Possible solutions are: collecting additional fees from homeowners specifically for renovation works; providing loan guarantees and partial government grants to homeowner associations for energy efficiency improvements; and establishing budgetary funds at entity and local levels to finance grants and loan guarantees (USAID, 2020[52]).

16.8. Indicators to monitor the overall policy progress in Bosnia and Herzegovina

To monitor progress in implementing policies for a green recovery in Bosnia and Herzegovina, the OECD suggests a set of key indicators, including values for Bosnia and Herzegovina and benchmark countries (either the OECD or the EU average, based on data availability, and Croatia for the number of renewable self-consumers per 100 000 population) (Table 16.2).

Table 16.2. Indicators to monitor progress in implementing policies in Bosnia and Herzegovina

2019, unless otherwise specified

Indicator	2019	Benchmark value
CO2 emissions per capita (tons per capita)	**6.81	**7.64[a]
CO2 emissions per unit of GDP (kg/USD 2015 PPP)	**0.5059	**0.1867[a]
Mean exposure to PM 2.5 air pollution (µg/m^3)	30.30	13.90[a]
Years of life lost (YLL) per 100 000 inhabitants attributable to exposure to PM2.5 pollution	*****1 381	*****1 074[b]
Subsidies for coal (EUR/MWh)	2.10	N/A
Market share of the largest generator in the electricity market (% of total electricity generation)	37.30	44.79[b]
Renewables (% of electricity generation)	36.95	34.94[b]
Solar and wind (% of electricity generation)	1.62	17.66[b]
Renewables self-consumers per 100 000 population	*0.03	**36.93[c]
Space heating using renewables and waste (fuelwood) (% of total)	***82.20	***27.00[b]
Transformation and distribution losses (% of primary energy consumption)	36.63	22.92[b]

Note: *2021, **2020, ***2018, ****2017, *****2016 . [a]OECD, [b]EU, [c]Croatia.

Source: Eurostat (2021[31]), Eurostat (database), https://ec.europa.eu/eurostat/; IEA (2021[65]), Data and statistics, www.iea.org/data-and-statistics; EEA (2019[66]), Air quality in Europe — 2019 report, www.eea.europa.eu/publications/air-quality-in-europe-2019; Energy Community Secretariat (2021), www.energy-community.org/regionalinitiatives/WB6/Tracker.html; Miljevic (2020[24]), Investments into the past, https://energy-community.org/dam/jcr:482f1098-0853-422b-be93-2ba7cf222453/Miljevi%25C4%2587_Coal_Report_122020.pdf; Miljević, Mumović, Kopač (2019[25]), Analysis of Direct and Selected Indirect Subsidies to Coal Electricity Production in the Energy Community Contracting Parties, https://www.energy-community.org/dam/jcr:ae19ba53-5066-4705-a274-0be106486d73/Draft_Miljevic_Coal_subsidies_032019.pdf; Slok, M. (2021[67]), Incentives and challenges in promoting self-consumption - The case of Croatia, www.energy-community.org/; World Bank (2021[68]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators.

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Notes

[1] The Framework Energy Strategy of Bosnia and Herzegovina 2035 is the key strategic document for the energy sector. It defines strategic priorities and goals for clean technologies, energy efficiency and renewable energies, as well as strategic priorities and guidelines for the electricity sector, the coal sector, renewable energies, oil and petroleum products, gas, district heating and energy efficiency (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2017[6]).

[2] These investments are realised by a state-owned enterprise (SOEs) in collaboration with private companies from Bosnia and Herzegovina and China. Construction of Block 7 of TPP Tuzla is subject to an infringement procedure by the Energy Community Secretariat because the FBiH issued a public loan guarantee to secure a loan from China's Exim Bank, thereby violating European Union (EU) state aid rules (Energy Community Secretariat, 2020[3]; European Commission, 2020[4]).

[3] On reducing GHG emissions, while improving energy efficiency, boosting renewable energies, enhancing energy security, and advancing with the internal energy market and research, innovation and competitiveness.

[4] Assuming a carbon price of EUR 20/t CO2 (Miljević, Mumović and Kopač, 2019[25]).

[5] Information from fact-finding in Bosnia and Herzegovina from expert consultants from CENER21.

[6] Information from fact-finding in Bosnia and Herzegovina from expert consultants from CENER21.

[7] The EBRD's just transition initiative aims to ensure the benefits of a green economy transition are shared, while protecting vulnerable countries, regions and people from falling behind. Investment and policy activities by the EBRD that can accelerate a just transition focus on a green economy transition, supporting workers and regional economic development (EBRD, 2022[69]).

[8] Most importantly: a review of renewable energy fees charged to consumers, the introduction of market-based support mechanisms for large-scale renewable facilities (FiPs, auctions), the use of FiTs only for small-scale renewable installations, the introduction of net-billing for renewable self-consumers and

facilitating the connection of renewables to the distribution grid (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2017[6]).

[9] Analysis of Legal Framework and Recommendations for the Removal of Obstacles to Investments in the Energy Sector in the FBIH and Analysis of Legal Framework and Recommendations for the Removal of Obstacles to Investments in the Energy Sector in the RS.

[10] Energy efficiency obligation (EEO) schemes are legislative mechanisms that set energy saving targets for so-called obligated parties (OPs), to be met across these parties' customer portfolio (Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, 2020[70]).

[11] Information from fact-finding in Bosnia and Herzegovina from expert consultants from CENER21.

17 A green recovery in Kosovo

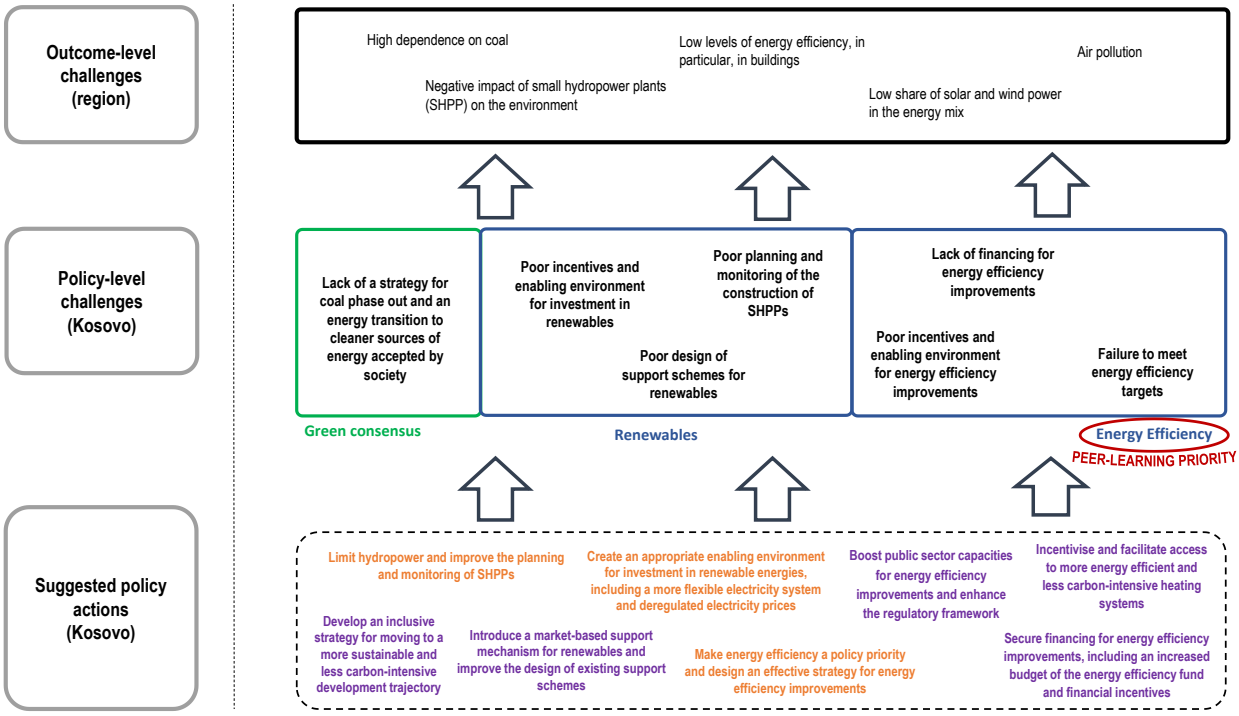
This chapter presents key policy priorities to ensure a green recovery in Kosovo through reducing its high carbon- and energy-intensities in an equitable way. In the Western Balkans, Kosovo has the highest share of coal in electricity generation. Kosovo can achieve important gains on emissions reduction and energy access by making energy efficiency a policy priority, by strengthening financing for energy efficiency in buildings, and by incentivising more energy efficient heating systems. Kosovo is starting to exploit its significant potential for intermittent renewables, such as solar and wind. To build on this initial progress, it needs to improve the enabling environment and introduce market-based support mechanisms for renewables, eliminate remaining subsidies for coal, and render its electricity system more flexible. It would also be important to reduce its high transmission and distribution losses. To be part of the global energy transition, with associated international goodwill and access to foreign financing, Kosovo requires greenhouse gas emissions targets in line with international good practice. This needs to be supported by an inclusive and effective strategy for a low-carbon transition.

The Initial Assessment of the Multi-dimensional Review (MDR) of the Western Balkans identified a green recovery as a top policy priority for Kosovo and the Western Balkan region as a whole. Energy and air pollution are complex challenges and significant obstacles to future economic development and well-being. Air pollution, unreliable access to clean energy and unsustainable environmental practices were identified as key constraints in Kosovo and the Western Balkan region in the Initial Assessment. High carbon intensiveness, in combination with low levels of energy efficiency, result in considerable air pollution and greenhouse gas (GHG) emissions in Kosovo. The share of renewables in Kosovo's energy mix remains low. Building on the initial assessment, the "From Analysis to Action" phase of the project provides policy suggestions to ensure green recovery in Kosovo and in other Western Balkan economies. The peer-learning workshops on green recovery served three complementary aims: to identify of problems hampering the green recovery; to identify key policy challenges; and to put forward key policy priorities for Kosovo and for the region (Figure 17.1).

Kosovo has already taken different measures for a green recovery, across several dimensions. Most notably, Kosovo has several strategic documents outlining its energy and climate policies, including the Kosovo's Economic Reform Programme 2021-2023 and a Climate Change Strategy 2019-2028. In addition, Kosovo has a Law on Energy Efficiency (2018) and a Law on the Energy Performance of Buildings (2016). To make heating more energy efficient, Kosovo is already in the process of modernising and expanding its district heating systems. To improve access to financing for energy efficiency measures, the Kosovo Energy Efficiency Fund (KEEF) was operationalised in 2020. To promote the use of renewable energies, Kosovo has already set up several renewable support mechanisms, including a net-metering scheme for renewables self-consumers (prosumer) and feed-in tariffs (FiTs).

To ensure fully green recovery, Kosovo must now tackle a set of important challenges that remain. Kosovo does not yet have an inclusive and clear strategy for phasing out coal and embarking on a transition to cleaner sources of energy. Going forward, Kosovo's revised Energy Strategy 2022-2031 could define a decarbonisation trajectory once this strategic document has been finalised. Further, Kosovo is still in the process of creating an enabling environment for investment in renewable energies; and to date, poor design of support schemes discourages investors and is costly for Kosovo's government. Small hydropower plants (SHPPs) have negative impacts on the environment, due to inadequate planning and monitoring of the construction process. To date, Kosovo has not been able to meet its energy efficiency targets; this reflects a lack of financing as well as insufficient incentives and enabling conditions for energy efficiency improvements (Figure 17.1).

Figure 17.1. Towards a green recovery in Kosovo and the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Eight policy priorities have great potential to ensure green recovery in Kosovo, with policy actions related to energy efficiency being the key priorities. These policy priorities reflect the issues raised by the peer-learning participants from Kosovo at the green recovery peer-learning workshop:

- Make energy efficiency a policy priority and design an effective strategy for energy efficiency improvements (peer-learning priority)
- Incentivise and facilitate access to more energy efficient and less carbon-intensive heating systems (peer-learning priority)
- Secure financing for energy efficiency improvements, including an increased budget of the Energy Efficiency Fund and financial incentives (peer-learning priority)
- Boost public sector capacities for energy efficiency improvements and enhance the regulatory framework (peer-learning priority)
- Develop an inclusive and effective strategy for moving to a more sustainable and less carbon-intensive development trajectory
- Introduce market-based support mechanisms for renewables and improve the design of existing support schemes
- Create an appropriate enabling environment for investment in renewable energies, including a more flexible electricity system and deregulated electricity prices
- Limit hydropower in Kosovo and improve the planning and monitoring of SHPPs.

This chapter is divided into nine sections. Sections 17.1 through 17.8 provide policy implications across the eight policy priorities through a prism of challenges specific to Kosovo. Section 17.9 provides indicators against which progress in policy implementation in Kosovo can be measured. This chapter is complemented by the regional chapter (Chapter 14), which provides more specific policy options for the policy priorities, based on international practice that may be applied, with necessary adaptations, also to Kosovo.

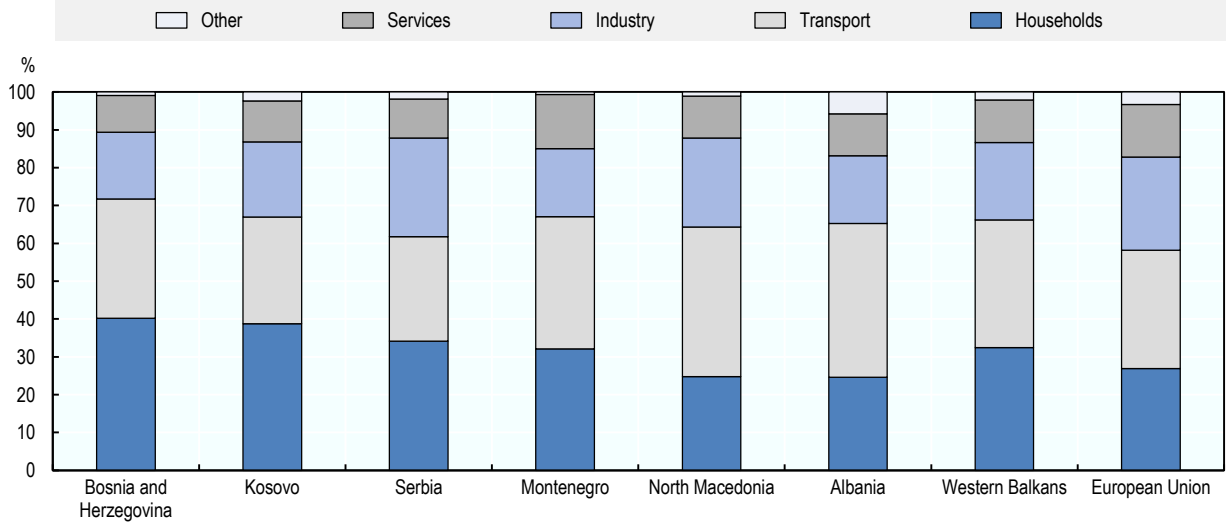
17.1. Make energy efficiency a policy priority and design an effective strategy for energy efficiency improvements in Kosovo

Kosovo has succeeded in meeting its energy efficiency target for 2020. Kosovo's Law on Energy Efficiency targets a final energy consumption not exceeding 1 566 kilotonnes of oil equivalent (ktoe) in 2020 (Ministry of Economic Development, 2019[1]). Even though Kosovo's final energy consumption has increased over the last decade (by 18.7 % from 1 278.7 ktoe in 2011 to 1 517.6 ktoe in 2020), Kosovo has been able to meet this target (Eurostat, 2021[2]).

Lack of insulation in residential buildings, coupled with inefficient and energy-intensive heating systems, result in high energy demand by the residential sector in Kosovo. Households account for the largest share of final energy consumption – 38.7% compared with averages of 32.4% in the region and 26.9% in the European Union (Eurostat, 2021[2]) (Figure 17.2). Kosovo's residential sector accounted for 54% of electricity consumption, compared with 49% on average in the Western Balkans and 28% in the EU (2018) (IEA, 2021[3]).

Figure 17.2. Households' energy consumption is high in Kosovo

Final energy consumption by sector, 2019



Source: Eurostat (2021[2]), Eurostat (database), https://ec.europa.eu/eurostat/.

StatLink https://stat.link/i96f7s

Improving the energy efficiency of residential buildings would not only contribute to decarbonisation, but also reduce energy bills and energy poverty. Only 9% of homes in Kosovo are equipped with energy efficient materials, appliances and equipment (EBRD, 2016[4]). The housing stock is outdated and lacks insulation; and even more recent buildings were often built with little regard to energy efficiency standards (EBRD, 2016[4]). Over 60% of all homes in Kosovo were built in the 1970-2000s; about 15% were built before 1970 while just over 20% have been built since 2000. The majority of homes are 12 to 42 years old.

Low energy efficiency in electricity production in Kosovo's power plants results in high transformation losses. Kosovo has the highest transformation losses in the region; they make up 36.3% of primary energy consumption compared with a Western Balkan average of 25.3% and 21.3% in the EU (see Figure 14.7 of Chapter 14). Outdated energy infrastructure also leads to high distribution losses – equivalent to 3.9% of primary energy consumption, against 3.4% (on average) in the Western Balkans and 1.7% in the EU (Eurostat, 2021[2]).

Kosovo requires a comprehensive strategy for energy efficiency in buildings. In recent years, Kosovo has formulated important policy and strategy documents for energy efficiency; however, the policy framework remains fragmented. Kosovo's Economic Reform Program 2021-2023 includes energy efficiency improvements as the first structural measure to support economic competitiveness. But the programme lacks ambition: concrete measures focus primarily on implementing already approved grants and loans. The Economic Reform Programme also fails to examine structural challenges to energy efficiency and to define a clear strategy for addressing them. At present, budgetary resources allocated to energy efficiency improvements are very limited. Kosovo drafted its fourth National Energy Efficiency Action Plan (NEEAP) 2019-2021, but it has not yet been adopted. The NEEAP outlines energy efficiency objectives and energy efficiency policies, including an energy efficiency obligations scheme (Energy Community Secretariat, 2020[5]). Kosovo adopted a Law on Energy Efficiency in 2018 and a Law on the Energy Performance of Buildings (05/L-101) in 2016. It has also prepared a draft building renovation strategy. At the time of writing, this strategy had not been adopted (Ministry of Economic Development, 2019[1]). Kosovo does not have a legal framework and strategy for reducing electricity transmission and distribution (T&D) losses.

17.2. Incentivise and facilitate access to more energy efficient and less carbon-intensive heating systems

Energy efficiency measures to reduce energy consumption were identified by peer-learning participants as a top priority for Kosovo. Measures for energy efficiency improvements in buildings – most importantly, by households – were prioritised by participants. Specific measures included providing subsidies to households, expanding district heating systems and promoting heat pumps (Box 17.1). Modernising space heating is crucial for improved energy efficiency in buildings in Kosovo.

Less reliance on fuelwood and a shift to more energy efficient modes of heating could foster energy efficiency in Kosovo. Renewables and waste (mainly fuel wood) account for 86.1% of space heating in Kosovo compared with 61.4% (on average) in the region and only 17% in the EU (see Figure 14.8 of Chapter 14). Electricity accounts for another 10.4% of space heating.[1] Total 2019 energy consumption by households in Kosovo is dominated by biomass (58.9%) and electricity (37%), reflecting widespread use of fuel wood and electricity for space heating (Kosovo Agency of Statistics, 2021[6]). Only 3-5% of households are equipped with central heating installations; the vast majority use individual, inefficient devices for both heating and cooking, mainly burning fuel wood but also coal. This results in high energy consumption and in important indoor and outdoor air pollution, posing a risk to human health and the surrounding environment. Kosovo could consider banning lignite for residential heating to reduce air pollution.

Modernising Kosovo's district heating systems, and integrating more renewables and natural gas into them, could render these systems more efficient and less polluting. Four municipalities in Kosovo have district heating systems (Pristina, Gjakova, Mitrovica and Zveqan) (Kosovo Ministry of Economic Development, 2017[7]). These systems rely predominantly on coal (94%) and to a lesser extent on petroleum products (6%) (Energy Community Secretariat, 2020[5]). It is estimated that 15% to 20% of heat produced is lost during delivery. The Pristina district heating system is served by a heating plant, which is supplied by fuel oil boilers and waste heat from the Kosovo B lignite power plant (274 megawatts [MW]). Expansion plans for the Pristina system include the addition of 29 MW of solar thermal energy and improvements to reduce heat losses. The Gjakova system's oil-fired heating plant has been replaced with biomass cogeneration (based on wood waste) in 2021 (Balkan Green Energy News, 2021[8]; Energy Community Secretariat, 2020[5]; Wynn and Flora, 2020[9]). Kosovo has started assessing its potential for highly efficient cogeneration district heating and cooling systems in eight municipalities, as required by the Energy Efficiency Directive (EED).

Expanding access to district heating is another key measure. At present, district heating accounts for only 3% to 5% of heating in Kosovo (Kosovo Ministry of Economic Development, 2017[7]). Expanding its application could reduce use of inefficient heating devices, resulting in energy savings and lower GHG emissions and air pollution (Balkan Green Foundation, 2020[10]). Kosovo should conduct a cost-benefit analysis to determine where such systems should be installed.

Reforming district heating billing to reflect actual heat consumed could encourage more energy savings. Kosovo has a dual model of billing for heating (metered and unmetered). Currently, unmetered billing prevails in Kosovo's district heating systems, which means charges are based on space size and independent of actual heat consumption (Energy Community Secretariat, 2020[5]). Unmetered billing tends to result in excessive heat consumption.

Incentives for installing heatpumps could contribute to the roll-out of more energy efficient heating systems. Financial incentives could trigger households and businesses to replace inefficient heating devices with heat pumps in regions where district heating systems are not planned. The relatively high investment required is a primary barrier to switching to heat pumps or to replacing inefficient devices that have not yet reached the end of their lifespan with more efficient ones.[2]

Box 17.1. Outcomes of the green recovery peer-learning workshop – Kosovo

Participants from Kosovo (representing government, the private sector and civil society) at the OECD green recovery peer-learning workshop identified reducing energy consumption by 26% by 2030 - the target of 26% has been defined by peer-learning participants and is not an official target, primarily through energy efficiency measures, as the top priority for the economy. They suggested an action plan that could complement current policy efforts, specifically suggesting six actions with corresponding targets and measures.

Table 17.1. Reduce energy consumption by 26% by 2030 through energy efficiency measures

Action plan, targets and measures

Actions	Targets and measures
Action 1: Subsidise households for energy efficiency measures, including specific social programmes for vulnerable consumers	• Realistic target: renovate 10% of residential buildings by 2030 (1% annually) • Concrete measures to support vulnerable consumers to renovate housing
Action 2: Build district heating in four other cities beyond Pristina	• Pristina: double district heating capacity by 2030 • Gjakova: operationalise a district heating system by 2022 • Finish feasibility studies and Environmental and Social Impact Assessments (ESIA) for district heating systems in three other districts by 2022 • Long term: operationalise district heating in four cities beyond Pristina by 2028
Action 3: Promote heat pumps in households and buildings	• Tax incentives: reduce the value-added tax (VAT) rate from 18% to 15% for heat pumps • Determine why heat pump prices in Kosovo are higher than in other European countries and how to lower prices
Action 4: Reduce technical and commercial electricity losses	• Reduce electricity losses by 9% by 2030 (1% annually)
Action 5: Implement energy efficiency measures in public and private new and old buildings	• Improve energy efficiency by 20% by 2030 (across households, industry, services, agriculture and transport) • Renovate 10% of residential buildings by 2030
Action 6: Launch regulatory and fiscal reform of the transport sector to improve energy efficiency	• Long term: 5% of all vehicles are electric vehicles (EVs) by 2030 (this contributes to both renewable energy and energy efficiency targets)

Source: OECD peer-learning workshops.

Peer-learning participants suggested a variety of measures to improve energy efficiency in buildings. They recommended development of incentive measures for improvements in residential and commercial buildings such as fiscal incentives – for example by lowering VAT rates – on renewable equipment and installation (including for heat pumps), Participants also suggested undertaking feasibility studies on district heating as well as building renovation (including development of a comprehensive strategy), promotion of renewables in buildings (including renewable self-consumption) and transport sector reform.

The need to improve access to finance for energy efficiency improvements was particularly stressed by participants. They highlighted the importance of increasing the budget capacity of Kosovo's Energy Efficiency Fund. Specific measures suggested include: establishing energy service companies (ESCOs) to finance energy efficiency services; developing green loans for the private sector and households; and government support (such as partial loan guarantees) for green loans by commercial banks.

Finally, participants also emphasised the importance of improving the regulatory framework for energy efficiency and the need to strengthen planning and monitoring of the implementation of such measures – including those outlined in strategic documents. They recommended stronger legal regulations on reducing technical electricity losses as well as stricter inspection and verification of the compliance of buildings with energy efficiency standards.

Note: The target of 26% has been defined by peer-learning participants and is not an official target.
Source: OECD peer-learning workshops.

17.3. Secure financing for energy efficiency improvements

Despite significant financial contributions for energy efficiency improvements by EU and international donors, current investment levels in Kosovo remain very low compared with funding needs. Investment needs in energy efficiency in Kosovo between 2011 and 2020 were estimated at EUR 328 million; in fact, Kosovo invested only EUR 135 million in energy efficiency in buildings between 2010 and 2021 (Energy Community Secretariat, 2020[5]). This lack of funding means that planned measures cannot always be implemented. Kosovo planned a range of improvements in the buildings sector for 2019-20, including in residential houses (e.g. installation of thermostatic heat valves) and multi-apartment buildings. However, as the government did not allocate budgetary resources to these measures, their implementation was dependent on external funding (Balkan Green Foundation, 2020[10]). The Millennium Foundation Kosovo (MFK) committed to finance part of these measures and has started project implementation.

Scaling up the Kosovo Energy Efficiency Fund (KEEF) and making private and residential buildings eligible for funding are vital steps. The KEEF was operationalised in 2020 with the aim of providing municipalities with financial resources to carry out energy efficiency improvements in 30 public buildings per year. At his rate, it would take 20 years to implement improvements across Kosovo's entire public building stock. At present, commercial and residential buildings are not eligible for KEEF funding. In a relevant example from the region, Croatia established an energy efficiency fund – the Fund for Environmental Protection and Energy Efficiency – that allocates financial resources to public, private and commercial buildings. The Croatian fund also supports (among others) the purchase of new, energy efficient vehicles and expansion of recycling capacity (FONDZIN, 2021[11]).

Kosovo requires financial incentives and better access to private financing for energy efficiency improvements in residential and commercial buildings. Financing energy efficiency improvements is often a challenge for households in Kosovo, particularly the poorest and most vulnerable. Investment costs

are high in relation to average salaries. Financial incentives for investing in energy efficiency are still at the very early stages of development in Kosovo and could be scaled up significantly. Scope also exists to improve access to private financing for energy efficiency improvements: at present, loans for such work are difficult to obtain and characterised by high interest rates.[3]

17.4. Boost public sector capacities for energy efficiency improvements and enhance the regulatory framework

Energy efficiency criteria should be incorporated in public procurement processes. Public institutions in Kosovo often acquire buildings, goods and services with low levels of energy efficiency. It is frequently a challenge for contracting authorities to compile technical information on energy efficiency in the first phase of tendering. Public institutions could strengthen their ability to account for energy efficiency criteria and to conduct life-cycle cost analysis in procurement processes (Balkan Green Foundation, 2020[12]). Kosovo's Law 2003/17 on Public Procurement allows for incorporating life-cycle cost analysis and best price-quality ratios (including energy efficiency criteria) in procurement processes. These principles have not yet been integrated in secondary legislation (European Commission, 2019[13]). During the construction phase of public buildings and implementation of public services, monitoring and oversight could be strengthened to leverage opportunities for energy efficiency improvements (Balkan Green Foundation, 2020[12]).

ESCOs could facilitate energy efficiency improvements in buildings. ESCOs are companies that deliver energy efficiency projects using the money from cost reductions on subsequent energy savings to finance the projects. Deployment of ESCOs in Kosovo could be facilitated by introducing model contracts and by streamlining provisions on the duration of service and selection criteria for ESCOs in the Public Procurement Law and the Law on Public Private Partnerships (Balkan Green Foundation, 2020[12]). In order to align its legal framework with the 2014 EU Directive on Public-Private Partnerships and Concessions, Kosovo is currently in the process of developing secondary legislation on ESCOs and model contracts for ESCOs (Kosovo Energy Efficiency Agency [KEEA]) (European Commission, 2019[13]).

To be able to lead the energy efficiency agenda, Kosovo's public sector staff need to be more informed on the topic. At present, Kosovo's public sector lacks capacities in key areas such as in planning and implementation of energy efficiency measures and for inspection and verification of compliance with energy efficiency standards in buildings. This stalls progress: for example, the plan to install new district heating systems in eight municipalities in 2019 did not start on time since the feasibility study could only be considered for 2020.[4]

17.5. Develop an inclusive strategy for moving to a more sustainable and less carbon-intensive development trajectory

Kosovo faces the dual challenge of needing to reduce its high carbon- and energy-intensities while also stimulating economic development. A full 94.95% of Kosovo's electricity is generated from coal; not surprisingly, its energy intensity and GHG emissions per unit of gross domestic product (GDP) are among the highest in the Western Balkan region (Eurostat, 2021[2]; Kosovo Environmental Protection Agency, 2020[14]; World Bank, 2021[15]). At the same time, Kosovo's GDP per capita is the lowest in the region: EUR 4 230 compared with a regional average of EUR 5 872 and EUR 34 769 in the EU (all numbers in constant 2010 USD) (World Bank, 2021[15]).

To be part of the global energy transition, with associated international goodwill and access to foreign financing, Kosovo needs to establish greenhouse gas emissions targets in line with international good practice. Currently, Kosovo does not have a GHG emissions reduction target. Kosovo

is not a signatory of the United National Framework Convention on Climate Change (UNFCCC) (Ministry of Economy and Environment, 2020[16]) and is not party to the Paris Agreement yet. The establishment of GHG emissions targets needs to be supported by an inclusive and effective strategy for a low-carbon transition. Setting targets that are consistent with international good practice would show commitment to the transition, and thus reduce the chances of Kosovo becoming economically marginalised as the European Union proceeds on its European Green Deal and Border Carbon Adjustment Mechanism.

Revising Kosovo's Energy Strategy to have a sharp focus on renewables and energy efficiency is important. Kosovo's Energy Strategy for 2017-2026 (approved in January 2018) has a stated aim to further develop the sector and support economic development while protecting human health, social well-being and the environment.[5] The Strategy aims to construct a new large thermal power plant (TPP) and to rehabilitate the TPP Kosovo B, but lack of funding has delayed the start of construction. In 2018, the World Bank – the primary funder of the new TPP – decided to withdraw from the project (Balkan Green Foundation, 2020[10]). Given the numerous challenges Kosovo is facing and the failure to start construction of the new TPP, a review of the Energy Strategy is ongoing: Kosovo is in the drafting phase of a revised Energy Strategy (2022-2031), which aims to lead the way towards decarbonisation. In October 2021, a working group for the revision of the Energy Strategy was established.

Kosovo requires a strategy to replace coal by less-polluting alternatives, including renewables, and enhancing energy efficiency measures. Planned closure of the TPP Kosovo A by 2030, as demand for electricity is expected to increase, would require additional generation capacity of 3 300 GWh annually by 2030 (Wynn and Flora, 2020[9]). Kosovo could add an additional 1 500 GWh of annual capacity through solar and wind power in combination with energy storage (this is in addition to 400 GWh of solar and wind power annually already in the planning pipeline or under construction). Conservative estimates suggest Kosovo could save electricity amounting to at least 1 400 GWh by 2030 by reducing T&D losses (800 GWh) and investing in energy efficiency improvements in buildings (600 GWh). If the interconnection capacity with Albania is scaled up and regional market integration is deepened, an additional 1 000 GWh could be imported (IEEFA, 2020[17]). Different options are being evaluated in terms of costs and benefits as part of the process of the revision of Kosovo's Energy Strategy.

Kosovo should prioritise implementation of a GHG monitoring, reporting and verification mechanism and finalisation of its National Energy and Climate Plan (NECP). An NECP is a key strategic document for laying out an energy transition strategy. Kosovo has adopted the legal basis for preparing and adopting its NECP, and has set up a national working group and six thematic working groups to draft the NECP. Drafting and analytical work has started with international support. Policy scenarios and projections for GHG emissions reduction have been defined but target setting has not yet started (Energy Community Secretariat, 2020[5]; Energy Community Secretariat, 2021[18]). Kosovo is planning to adopt the final version of its NECP in 2024.

Implementing strategic documents on climate and energy policies is vital, most importantly, the climate strategy and action plan. Kosovo has already several strategic documents outlining its energy and climate policy. Kosovo's Economic Reform Programme 2021-2023 includes measures targeted at the energy sector, with key aims to reduce consumption through energy efficiency measures and to increase the diversity of energy sources (Government of Kosovo, 2020[19]). The government has developed a Climate Change Strategy 2019-2028, and an action plan outlining policy measures for climate change mitigation and adaption. Kosovo voluntarily joined the 2030 Agenda for Sustainable Development, thereby committing to the 17 Sustainable Development Goals (SDGs). Other strategic documents include a National Energy Efficiency Action Plan (NEEAP) 2019-2021 (not adopted yet) and a National Renewable Energy Action Plan (NREAP 2011-2020), which establishes renewable energy targets and measures to support their deployment (Energy Community Secretariat, 2020[5]).

The government should take step to better include the private sector, academia and civil society in energy and climate policy making. Building a consensus that includes all relevant stakeholders is

important for an effective energy transition from coal to less-polluting alternative sources of energy in Kosovo. The National Council of Economic Development of Kosovo (NCED) (established in 2015) serves as a forum for public-private dialogue, including on energy and climate policy. The NCED is chaired on an alternating basis by the Prime Minister and the Minister of Trade and Industry; it brings together the most important representatives of the private sector, relevant government ministries and state agencies. One of its key aims is to eliminate barriers and address challenges faced by investors in Kosovo. The NCED does not deal exclusively with energy and climate policies – they are among a range of topics being discussed. At present, the NCED does not include stakeholders from academia and civil society – an oversight that should be corrected (NCED, 2019[20]).

Scope exists to improve implementation of environmental impact assessments (EIAs) for energy infrastructure, and to enhance public participation in the infrastructure planning process. Implementation and quality control of EIAs and other environmental reports remain challenges in Kosovo, as does early and effective public participation in energy infrastructure planning. Kosovo's legal framework for EIAs is not fully compliant with EU legislation (Directive 2014/52/EU) (Energy Community Secretariat, 2020[5]), which mandates EIAs for the installation of oil and gas pipelines, natural gas storage, production of liquid and gaseous hydrocarbons, and coal gasification and liquefaction plants. EIAs must be submitted by the project proposer to the competent authority and must contain a minimum of information (IEA, 2021[21]).[6]

17.6. Improve the design of support schemes for renewables in Kosovo

Boosting the share of renewables in Kosovo's energy mix is an integral part of the green recovery process. In 2019, renewables accounted for only 5.05% of electricity generation in Kosovo while 94.95% was generated from coal. Within the renewables share, hydropower accounts for 67.7% of electricity generated, wind power for 28.9% and solar energy for only 3.4% (Eurostat, 2021[2]). There are 13 medium and large hydropower plants in Kosovo, with the largest (Ujmani) having a capacity of 35 MW (Balkan Green Foundation, 2019[22]). Between 78 and over 90 SHPPs operate in Kosovo (Balkan Green Foundation, 2019[22]; CEE Bankwatch Network, 2015[23]). Kosovo has signed the Energy Community Treaty and adopted EU Directive 2009/28/EC on the promotion of renewable energies. Kosovo's NREAP aimed at 25% of renewables in gross final energy consumption by 2020 – somewhat below the voluntary target of 29.47% set in 2013 (Optima Energy Consulting, 2021[24]; Ministry of Economic Development, 2020[25]). In 2019, the lower goal had been achieved, with renewables amounting to 25.69% of gross final energy consumption (Eurostat, 2021[2]). However, this is below Kosovo's voluntary target for 2020 and Kosovo is not on track towards the EU target for its member countries of 40% of renewables in gross final energy consumption by 2030 (Optima Energy Consulting, 2021[24]).

Scope exists to scale up wind and solar energy in Kosovo. Kosovo has an average theoretical potential for solar photovoltaic (PV) energy of 3.85 kilowatt hours per square meter (kWh/m^2) (ESMAP, 2020[26]). Its first large-scale wind and solar projects were launched recently (IEEFA, 2020[17]). The first major wind farm, the 32MW Kitka plant, started operating in late 2018. In December 2019, the European Bank for Reconstruction and Development (EBRD) approved a loan for the 105 MW Bajgora plant (CEE Bankwatch Network, 2021[27]). Construction is planned for several large solar power plants. Performance data for these projects show that Kosovo has considerable potential for wind and solar energy – and is even performing in line with peer and neighbouring economies (IEEFA, 2020[17]).

A market-based support mechanism for renewables could enhance the efficiency of support for renewables in Kosovo. Under Kosovo's current renewable energy support scheme (Rule 10/2017 - Support Scheme for Renewable Energy Sources Generators), renewable capacities are awarded to investors based on administratively fixed FiTs. However, since December 2020, FiTs have been suspended in Kosovo (Energy Community Secretariat, 2021[18]). Previously, administratively fixed FiTs for

wind and solar power have evolved slowly, even though the cost of solar and wind power has been falling significantly in recent years (Lajqi et al., 2020[28]). In renewable energy auctions, as an alternative to administratively fixed FiTs, investors would compete by bidding for the lowest possible price for electricity. This competitive bidding process would improve transparency in the selection of investors for renewable projects and could result in lower prices (Energy Community Secretariat, 2020[5]; Jakupi, 2020[29]). Kosovo is currently working on the legal framework for a market-based support mechanism for renewables (Energy Community Secretariat, 2021[30]). In a relevant example, Germany successfully shifted from FiTs to a market-based support scheme between 2012 and 2017 – initially using a feed-in premium, then renewable auctions (Bundesnetzagentur, 2016[31]).

Installation of rooftop PV systems for self-consumption could significantly increase electricity supply from solar power in Kosovo. Households, industrial and commercial electricity consumers represent considerable untapped potential for installing solar PV for self-consumption (E3 Analytics, 2020[32]). As part of its renewable energy support scheme, Kosovo has established a net-metering scheme for self-consumers with an installed capacity up to 100 kilowatts (kW) (prosumers) (Rule 10/2017 - Support Scheme for Renewable Energy Sources Generators). However, in the first three years (early 2017 to early 2020) of this regulation being in place, only an estimated 20 permits were issued to construct solar PV projects for self-consumption (E3 Analytics, 2020[32]). As of early 2022, there were 119 renewable self-consumers in Kosovo. Since part of the electricity they consume is produced on site, increasing the number of prosumers could reduce network (T&D) losses.

Lifting the voltage threshold to 35 kV would enable a wider range of electricity consumers to benefit from Kosovo's renewable energy support scheme for self-consumers. Currently, only electricity consumers connected to the grid at 0.4 kV are eligible for Kosovo's net metering scheme. This limits the group of beneficiaries mainly to households and very small companies, thereby severely constraining the potential market for customer-sited PV systems. Many electricity consumers that would be interested in installing such systems are commercial and industrial consumers currently connected to the grid at voltage levels above 0.4 kV (E3 Analytics, 2020[32]).

Shifting from net-metering to net-billing could enhance the efficiency of support for renewables self-consumers. Kosovo currently uses a net-metering scheme to support self-consumers of renewables (net-metering is settled in kWh while net-billing is settled in monetary terms). Under the current net-metering scheme, within each billing period, electricity prosumers receive a one-for-one electricity credit in kWh corresponding to the kWh exported to the grid. Under a net-billing scheme, they would receive a one-for-one monetary credit for every kWh exported to the grid, which would be subtracted from their electricity bill (Haziri, 2019[33]). This monetary scheme would correct the fact that Kosovo's current net-metering scheme does not allow prosumers to recover the fixed cost of using the distribution system (which is borne by all customers, including non-prosumers). Under a net-billing scheme, prosumers would receive a reference price for electricity fed into the grid – taking into account the fixed cost of using the distribution grid – while paying the retail price for their electricity consumption (USAID/Kosovo, 2019[34]; E3 Analytics, 2020[32]).

Simplifying and accelerating the procedure for construction of new renewable energy generation facilities would make them more attractive to investors. At present, this procedure consists of three main steps: obtaining preliminary authorisation, obtaining final authorisation and connection to the grid. The procedure can take up to three years. As a result, some electricity producers who apply for Kosovo's renewable energy support scheme and receive an allocation of generation capacity are ultimately unable to meet their initially proposed implementation timeline. In turn, this can cause investment delays (E3 Analytics, 2020[32]).

Scope exists to improve co-ordination among institutions involved in the administrative and permitting process for renewables, as well as to reduce the number of institutions implicated. Administrative and permitting procedures for renewables involve a large number of institutions, including

the Energy Regulatory Office (ERO), the Ministry of Environment and Spatial Planning (MESP), Kosovo Transmission, System and Market Operator (KOSTT) and Kosovo Distribution System Operator (KEDS) (Ministry of Economic Development, 2020[25]). In 2018, Kosovo adopted the legal basis for creating a one-stop shop for renewable energy projects; the inter-institutional co-ordination commission (including all institutions involved in the administrative process for renewable investments) for establishing this one-stop shop was set up in May 2019 (Energy Community Secretariat, 2020[5]). To date, the facility is not yet operational.

17.7. Create an appropriate enabling environment for investment in renewable energies

Kosovo requires a more flexible electricity system to respond quickly to large fluctuations in electricity supplied from variable renewables. Kosovo's current electricity mix is very inflexible: 94.95% of electricity is produced from inflexible TPPs, which are slow to shut down and turn on again (Eurostat, 2021[2]). Quickly dispatchable power plants (e.g. gas-fired or biomass), better interconnection with neighbouring economies, and energy storage could make Kosovo's electricity system more flexible. Kosovo's interconnections with neighbouring economies are not very well developed but are in the process of being improved: a new 400 kV interconnection line with Albania was built between 2014 and 2016 and started operation in 2020. Construction of additional interconnection lines with neighbouring economies may prove difficult due to the unresolved conflict between Kosovo and Serbia (Wynn and Flora, 2020[9]).

Higher electricity prices in Kosovo – in line with production costs - would encourage more households to invest in rooftop PV systems to become self-consumers. Electricity prices in Kosovo are currently regulated and subsidised. Subsidies for coal amounted to EUR 1.22/MWh in Kosovo in 2018-19, compared with EUR 1.26/MWh as the Western Balkans average. Subsidies amounted to EUR 6.6 million in 2019 – a sharp reduction from EUR 38.1 million in 2015. Thus, while subsidies remain high in Kosovo, they are now much lower than in Serbia and Bosnia and Herzegovina (Miljević, 2020[35]). Further, electricity prices in Kosovo were increased in 2022: Kosovo doubled electricity prices for households consuming over 800 kWh/month (Balkan Green Energy News, 2022[36]).

Kosovo requires a workforce with the right skills for scaling up renewable energies. Shortages exist for skilled workers for installation of renewables (particularly solar panels), maintenance and quality assurance in Kosovo (E3 Analytics, 2020[32]). Although public and private universities in Kosovo offer various programmes with green curricula, they fall short in developing skills related to environmental engineering (e.g. carrying out EIAs, performing site assessments to ensure compliance with environmental codes and regulations, resource management, waste minimisation and minimising the risk of environmental hazards).

17.8. Limit hydropower in Kosovo and improve the planning and monitoring of SHPPs

Potential for hydropower in Kosovo is limited; further development poses risks to the environment. Kosovo constructed at least seven new hydropower plants between 2009 and 2018 (CEE Bankwatch Network, 2019[37]). However, the economy has only 2 100 m^3 of renewable water resources per capita per year (m^3/capita/year), equivalent to just 13.95% of the Western Balkan average. As such, it is the only economy in the region that is close to water stress levels (1 700 m^3/capita/year) (OECD, 2021[38]). Kosovo's rivers are not rich in water flow. Available evidence indicates that new and existing hydropower plants have negative impacts on the environment and local communities, and contribute to degradation of riverbeds (Lajqi et al., 2020[28]). Hydropower plant construction, operation and ancillary activities in Kosovo frequently

destroy aquatic ecosystems. At present, 50% to 60% of SHPPs are located in protected areas (Balkan Green Foundation, 2019[22]; CEE Bankwatch Network, 2015[23]).

Scope exists to improve the planning and monitoring of the construction of SHPPs in Kosovo. Most SHPPs are not sufficiently well planned, partly because of incomplete and low-quality data on hydrology. In turn, the allocation of licenses for SHPPs lacks transparency and the plants often fail to fulfil environmental standards. The consequence is that many SHPPs withdraw more water than is sustainable and lack measures to protect aquatic ecosystems. Ancillary activities, such as road construction and upgrade, are also a threat to biodiversity (USAID, 2018[39]). SHPPs contribute to soil erosion and reduce ground and surface water levels, drying out rivers in some cases. Local residents sometimes lose access to water for drinking and agricultural activities. In 2018, the government imposed a moratorium on construction of new hydropower plants until a new assessment of the availability of ground and surface water could be completed (Balkan Green Foundation, 2019[22]).

17.9. Indicators to monitor the overall policy progress in Kosovo

To monitor progress in implementing policies for a green recovery in Kosovo, the OECD suggests a set of key indicators, including values for Kosovo and benchmark economies (either the OECD or the EU average, based on data availability; Croatia is the benchmark for the number of renewable self-consumers per 100 000 population) (Table 17.2).

Table 17.2. Indicators to monitor progress in implementing policies in Kosovo

2019, unless otherwise specified

Indicator	Kosovo	Benchmark value
CO2 emissions per capita (tons per capita)	**4.98	**7.64[a]
CO2 emissions per unit of GDP (kg/USD 2015 PPP)	**0.4707	**0.1867[a]
Mean exposure to PM 2.5 air pollution (µg/m³)	****24.80	13.90[a]
Years of life lost (YLL) per 100 000 inhabitants attributable to exposure to PM2.5 pollution	*****2 375	*****1 074[b]
Subsidies for coal (EUR/MWh)	1.22	-
Market share of the largest generator in the electricity market (% of total electricity generation)	100.00	44.79[b]
Renewables (% of electricity generation)	4.95	34.94[b]
Solar and wind (% of electricity generation)	1.59	17.66[b]
Renewable self-consumers per 100 000 population	*3.15	**36.93[c]
Space heating using renewables and waste (fuelwood) (% of total)	***86.10	***27.00[b]
Transformation and distribution losses (% of primary energy consumption)	40.16	22.92[b]

Note: *2021, **2020, ***2018, ****2017, *****2016. [a]OECD, [b]EU, [c]Croatia.

Source: Eurostat (2021[2]), Eurostat (database), https://ec.europa.eu/eurostat/; IEA (2021[40]), Data and statistics, www.iea.org/data-and-statistics; EEA (2019[41]), Air quality in Europe — 2019 report, www.eea.europa.eu/publications/air-quality-in-europe-2019; Energy Community Secretariat (2021), www.energy-community.org/regionalinitiatives/WB6/Tracker.html; Miljevic (2020[35]), Investments into the past, https://energy-community.org/dam/jcr:482f1098-0853-422b-be93-2ba7cf222453/Miljevi%25C4%2587_Coal_Report_122020.pdf; Miljević, Mumović, Kopač (2019[42]), Analysis of Direct and Selected Indirect Subsidies to Coal Electricity Production in the Energy Community Contracting Parties, https://www.energy-community.org/dam/jcr:ae19ba53-5066-4705-a274-0be106486d73/Draft_Miljevic_Coal_subsidies_032019.pdf; Slok, M. (2021[43]), Incentives and challenges in promoting self-consumption - The case of Croatia, www.energy-community.org/; World Bank (2021[15]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators.

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Notes

[1] According local data, wood accounts for 70.35% of space heating in residential buildings in Kosovo, electricity for 18.18%, coal for 7.10%, central or local systems (district heating) for 4.02% and other sources for 0.35% (Kosovo Agency of Statistics, 2015[44]).

[2] Information from fact-finding in Kosovo from expert consultants from CENER21.

[3] Information from fact-finding in Kosovo from expert consultants from CENER21.

[4] Information from fact-finding in Kosovo from expert consultants from CENER21.

[5] The strategy is based on five objectives: i) a sustainable and quality supply of electricity and a stable electricity system; ii) integration in the regional energy market; iii) enhancing existing capacities of TPPs and building new capacities; iv) development of natural gas infrastructure; and iv) fulfilment of objectives and obligations in the fields of energy efficiency, renewable energy sources and environmental protection.

[6] A project description, including location, design, size and other relevant information; a description of the likely significant impacts on the environment through construction and operation phases; a description of measures to avoid, prevent, reduce or offset likely environmental impacts; and a description of reasonable alternatives considered, adapted to the project and its specifications.

18 A green recovery in North Macedonia

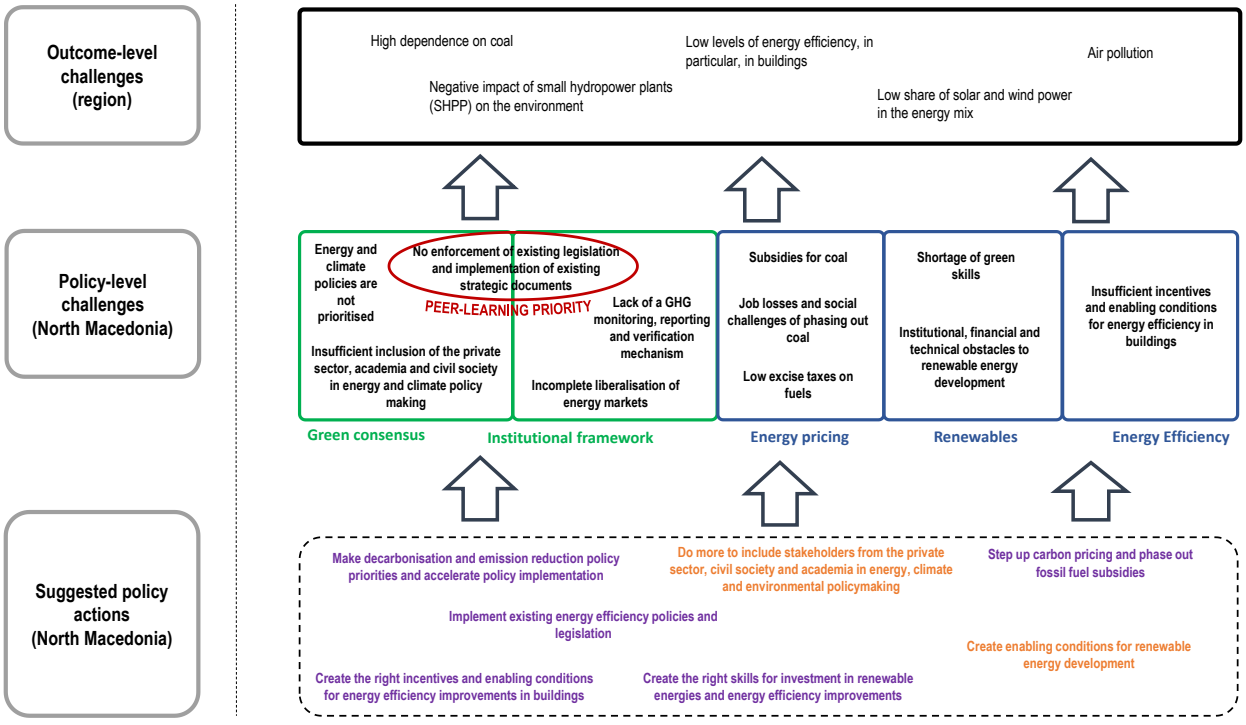
North Macedonia has already established a significant legislative foundation for the low-carbon transition, is well advanced in the process of submitting its National Energy and Climate Plan, and submitted an ambitious enhanced Nationally Determined Contribution to the Paris Climate Agreement. Within the Western Balkan region, North Macedonia has the lowest coal subsidies; it has, however, recently stepped up production of coal and coal-fired electricity. This chapter considers how North Macedonia can follow through on its climate- and environment-related legislation and strategic documents, which has historically been a challenge. To strengthen investment in renewable energies, North Macedonia needs to increase the use of market-based support mechanisms, eliminate remaining coal subsidies and increase excise taxes on fuels. Likewise, relevant administrative procedures should be streamlined, the electricity system should be updated for more flexibility and potential investors should be better informed about investment procedures. Similarly, the support system for energy efficiency in buildings needs to be strengthened and fully operationalised.

The Initial Assessment of the Multi-dimensional Review (MDR) of the Western Balkans identified a green recovery as a top policy priority for North Macedonia and the region as a whole. Energy and air pollution are complex challenges and significant obstacles to future economic development and well-being. Air pollution, unreliable access to clean energy and unsustainable environmental practices were identified as key constraints in North Macedonia and across the region in the Initial Assessment of the MDR. A high carbon-intensity in combination with low levels of energy efficiency results in considerable air pollution and greenhouse gas (GHG) emissions in North Macedonia. The share of solar and wind energy in the economy's energy mix remains low. Building on the initial assessment, the "From Analysis to Action" phase of the project provides policy suggestions to ensure a green recovery in North Macedonia and in the other Western Balkan economies. The peer-learning workshops on green recovery served three complementary aims: identify problems hampering the green recovery; to identify of key policy challenges; and to put forward key policy priorities for North Macedonia and for the region (Figure 18.1).

North Macedonia is already in the process of making its development greener. In May 2020, North Macedonia became the first Western Balkan economy to submit its National Energy and Climate Plan (NECP) to the Energy Community for review. It subsequently adopted (in February 2020) its Energy Development Strategy 2040 and an enhanced Nationally Determined Contribution (NDC) (in May 2021), the latter of which aims to reduce GHG emissions by 30% by 2030. North Macedonia is also supporting development of renewable energies through several incentive schemes and subsidies for households. In parallel, it has been increasingly aligning its legislation on energy efficiency with EU standards and supporting – through subsidies – a small number of households in energy efficiency improvements.

To ensure a fully green recovery, North Macedonia must now tackle a set of important challenges that remain. Peer-learning workshop participants indicated three overarching areas for improvement: energy and climate policies could be given higher priority; existing legislation could be better enforced; and implementation of strategic documents could be significantly strengthened. Additionally, the private sector, civil society and academia are not yet sufficiently included in energy and climate policy making. North Macedonia also lacks a GHG monitoring, reporting and verification mechanism, and liberalisation of its energy markets remains incomplete. Subsidies for coal and low excise taxes on fuels (particularly diesel) remain challenges. Institutional, financial and technical obstacles to renewable energy development persist, and North Macedonia does not yet have appropriate incentives (particularly for vulnerable consumers) and enabling conditions for energy efficiency improvements in buildings. A shortage in important skills for scaling up renewable energies and energy efficiency improvements was also noted. Participants argued that it is important to aim for a just transition and to strengthen compensation for those who have "something to lose" through green policies such as increasing excise taxes on fuels and phasing out fossil fuel subsidies (Figure 18.1).

Figure 18.1. Towards a green recovery in North Macedonia and the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Seven policy priorities have great potential to ensure a green recovery in North Macedonia, including decarbonisation and emissions reduction, and the most important one being to accelerate policy implementation. These policy priorities reflect the issues raised by peer-learning participants from North Macedonia during the green recovery peer-learning workshop (Box 18.1):

- Make decarbonisation and emission reduction policy priorities and accelerate policy implementation (policy priority)
- Do more to include academia, businesses and civil society in energy and climate policy making
- Step up carbon pricing and phase out fossil fuel subsidies
- Create enabling conditions for renewable energy development
- Create appropriate incentives and enabling conditions for energy efficiency improvements in buildings
- Implement existing energy efficiency policies and legislation
- Build up the skills needed for scaling up renewable energies and energy efficiency improvements

Box 18.1. Outcomes of the green recovery peer-learning workshop – North Macedonia

The participants (representing government, the private sector and civil society) from North Macedonia in the OECD green recovery peer-learning workshop identified as the top priority the implementation (adoption) of the energy and climate package, the Nationally Determined Contribution (NDC) and other strategic and legal frameworks (e.g. Law on Energy, Long-term Strategy on Climate Action) in accordance with the National Programme for the Adoption of the *Acquis Communautaire* (NPAA). Participants suggested an action plan that could complement current policy efforts, identifying six specific actions with corresponding monitoring indicators and measures (Table 18.1).

Table 18.1. Implementation (adoption) of key strategy documents and legal frameworks)

Action plan, monitoring indicators and measures

Actions	Monitoring indicators and measures
Action 1: Open energy markets (electricity and gas) and establish integration of power exchanges	• Electricity: volume of commercially available border capacity for electricity trading (goal: 70% of technical available capacity) • Gas: signing of gas interconnection agreement between North Macedonia and Bulgaria
Action 2: Implement policy to reduce air pollution	• PM2.5 and PM10 air pollution • SO2 emissions • Amount of firewood consumed/sold • Adoption of a ban on coal for household use in urban areas
Action 3: Carry out a regulatory impact assessment, including on energy-related tariff policies to stimulate the economy towards climate goals	• Gap between domestic and market prices of energy (for both fuels and electricity)
Action 4: Implement social support programmes to ensure a just transition	• Number of workers who have undergone retraining • Number of local economic initiatives that are not related to coal (businesses, farming, etc.)
Action 5: Establish a GHG monitoring, reporting and verification mechanism	• Adoption of the Law on Climate Action • Adoption of the Strategy on Climate Action • Implementation of the action plan of the strategy
Action 6: Create policy and provide financing for subsidies for energy efficiency improvements for vulnerable consumers	• Improving coverage of the programme targeting vulnerable consumers • Increasing subsidies for retrofitting (up to 100% of cost)
Action 7: Launch a carbon tax	• Adoption of the Law on Climate Action • Adoption of the Strategy on Climate Action

Note: PM2.5 and PM10 refer to different sizes of particulate matter. SO2 = sulphur dioxide.
OECD peer-learning workshops.

In addition to these national actions, peer-learning participants from North Macedonia stressed the need for improved integration and collaboration across the region. They highlighted the importance of solidarity and goodwill to create regionally integrated energy markets, facilitate electricity flows across borders and establish an effective carbon tax. Most importantly, a set of interrelated actions should be pursued at the regional level: electricity system operators should become much better integrated and power exchanges should be established; electricity prices on the wholesale market should eventually be the same across all regional economies; and North Macedonia should increase its use of cross-border interconnectors.

Peer-learning participants also emphasised the need to raise awareness about sustainability on the consumer side while ensuring that the government commits to more inclusive energy and climate policy making in North Macedonia – including more effective communication to the public. The government

and the media can play vital and complementary roles in communication campaigns that target specific groups and provide information on specific measures (e.g. installing heat pumps or reducing use of fuel wood). For energy and climate policy making, better collaboration is needed among government, the private sector, academia and civil society organisations (CSOs). For this, peer-learning participants suggested establishing a council of business representatives at the Ministry of Environment and making better use of the National Council for Sustainable Development for inter-institutional collaboration.

Finally, peer-learning participants stressed the need to step up support for vulnerable consumers by ensuring that the low-carbon transition includes a just transition plan. They encouraged the separation of economic and social subsidies and market-based energy prices in North Macedonia while highlighting the need to mitigate the impact of higher energy prices on vulnerable consumers. They also recommended extending subsidies for energy efficiency improvements – such as those for replacing wood and coal stoves with more efficient cooking and heating devices – to more households

Source: OECD peer-learning workshops.

This chapter is divided into eight sections. Sections 18.1 through 18.7 provide policy implications across the seven policy priorities identified by peer-learning participants through a prism of challenges specific to North Macedonia. Section 18.8 provides indicators against which progress in policy implementation can be measured. This chapter is complemented by the regional chapter (Chapter 14), which provides more specific policy options for the policy priorities based on international practice that may be applied, with the necessary adaptations, also to North Macedonia.

18.1. Make decarbonisation and emissions reduction policy priorities and accelerate policy implementation in North Macedonia

North Macedonia should make decarbonisation and GHG emissions reduction policies policy priorities and requires an ambitious strategy for coal phase out. In terms of energy and climate policies, North Macedonia has already adopted different strategic documents such as the Energy Development Strategy 2040. North Macedonia's NECP has already been submitted to the Energy Community for review and is to be adopted soon. Implementation of strategic documents, however, has been slow. Further, North Macedonia has not yet defined an official date and a strategic vision for coal phase out, and coal excavation as well as electricity generation from coal have both been stepped up recently in the context of high and rising global energy prices. The third unit of coal-fired TPP Bitola was reactivated in October 2021 (Balkan Green Energy News, 2021[1]).

North Macedonia requires a broad consensus on a decarbonisation strategy and the energy transition. This consensus needs to include all relevant stakeholders, including civil society, academia, and the private sector. A just transition plan for the coal phase-out could facilitate this process: a broad strategy for decarbonisation should include a new economic model for North Macedonia and measures to mitigate the impact for those negatively affected by the coal phase-out (CEPS, 2016[2]).

North Macedonia has made important progress in building a financing framework for energy and climate policies. This includes the recent adoption of the Growth Acceleration Financing Plan (2022-26). The proposed financing instruments for the Growth Acceleration Plan include, among other elements, green bonds, a Hybrid National Green and Digital Fund for SMEs, Start-ups and Innovative Enterprises to invest in green and digital SMEs, an Energy Efficiency Fund and a Strategic Green Investment Fund to accelerate investment in renewable energy sources and financing energy efficiency solutions (Balkan Green Energy News, 2021[3]; Ministry of Finance, 2021[4]).

Accelerating implementation of energy and climate policies is vital. To date, adoption of relevant laws and strategic documents has advanced slowly and is often delayed: examples include the case of the Law on Climate Action, the Law on Industrial Emissions, the National Plan on Climate Change and the fourth National Energy Efficiency Action Plan (NEAP), which was adopted only in September 2021 even though the previous NEAP had already expired in 2019. Work on the Law on Climate Action[1] and a Strategy on Climate Action started in March 2019 and drafts are completed but have not yet been adopted (MOEPP, 2021[5]). Adoption of the Law on Climate Action is key to define more clearly the competencies and responsibilities of the various institutions currently managing North Macedonia's existing GHG inventory system. In the past, once adopted, strategic documents often fail to be implemented. An Industrial Strategy, which aims to promote green industry, was adopted in 2018. However, the action plan for implementation – which includes investment incentives, the promotion of new technologies, research and innovation, and transfer of know-how – has not yet been implemented. The Energy Strategy adopted in 2010 foresaw the construction of five hydropower plants (total combined capacity of 685.7 megawatts [MW]) between 2010 and 2019. To date, only one plant was constructed and is operational. A law on green industrial zones was adopted in 2013 but no such zones were created (Government of the Republic of North Macedonia, 2013[6]).

Responsibilities for implementation of energy and climate policies should be clearly defined; human and financial resources should be boosted as necessary. Reducing GHG emissions is a complex process that involves a large number of institutions (e.g. the Ministry of Environment and Physical Planning; the Ministry of Economy; the Ministry of Agriculture, Forestry and Water Economy; the Ministry of Transport and Communications; the Energy Agency) and sectors (energy, industry, agriculture, waste, etc.). Defining the responsibilities of all stakeholders is therefore key, as are coherent planning and co-ordination among those involved. Despite having established the Climate and Energy Working Group, North Macedonia lacks a clear division among different stakeholders of responsibilities for policy measures and actions to meet GHG emissions reduction targets. In addition, key documents such as the Energy Strategy, the Strategy for Industrial Development, the Strategy for Agriculture and Rural Development, and other sectoral strategies, do not include the policy measures required to comply with North Macedonia's enhanced NDC. Also problematic is that North Macedonia lacks skilled human capital in public institutions to design policy measures and actions for GHG emissions reduction (Government of North Macedonia, 2020[7]).

North Macedonia should consider reactivating and giving more visibility to its Climate and Energy Working Group. North Macedonia created (in 2018) a Climate and Energy Working Group to ensure better collaboration among institutions and more effective decision making. The working group includes representatives of different government institutions including: the Ministry of Economy; the Ministry of Environment and Physical Planning; the Ministry of Transport and Communications; the Ministry of Finance; the Ministry of Agriculture, Forestry and Water Economy; the Cabinet of the Deputy Prime Minister for Economic Affairs; the Secretariat for European Affairs; the Energy Agency; North Macedonia's state-owned power company (Elektrani na Severna Makedonija – ESM); and the Macedonian Academy of Sciences and Arts (MANU) (Government of North Macedonia, 2020[7]). According to information available, this working group has not been very active recently.

In the context of its enhanced NDC, North Macedonia has established a more ambitious GHG emissions reduction target. North Macedonia submitted its enhanced NDC to the UNFCCC Secretariat in April 2021, stating the aim of a 51% GHG emissions reduction by 2030 compared with 1990 levels. The enhanced NDC was prepared to comply with the Paris Agreement and the European Green Deal's 2050 carbon-neutrality target, and went through stakeholder consultation. The enhanced NDC is fully aligned with North Macedonia's draft NECP and the green scenario from North Macedonia's National Strategy for Energy Development 2040. In its previous NDC, North Macedonia had committed to a less ambitious target: a 30% to 36% reduction in CO_2 emissions by 2030 as compared to business-as-usual[2] (Energy Community Secretariat, 2021[8]; MoEPP, 2021[9]).

As an Energy Community Contracting Party, North Macedonia was the first Western Balkan economy to submit (in May 2020) a complete draft National Energy and Climate Plan (NECP) for review to the Energy Community. North Macedonia's Law on Environment serves as legal basis for preparation of its NECP, which it started preparing as the National Emission Reduction Plan (NERP) in 2018. The process is led by the Ministry of Economy and the Ministry of Environment and Physical Planning; a working group with representatives of all relevant stakeholders was established for its preparation (Energy Community Secretariat, 2020[10]). Through its NECP, North Macedonia aims to reach its long-term energy and climate targets, reduce the administrative burden of the energy transition, improve transparency and ensure security of investment. However, North Macedonia's NECP still had not been adopted at the time of writing, even though the Energy Community's review was finalised in 2020.

To meet its GHG emissions reduction target and the objectives of the NECP, North Macedonia requires a functional GHG monitoring, reporting and verification mechanism. GHG monitoring is key to measuring progress towards and compliance with GHG emissions reduction targets, and is required as part of transposing the Monitoring Mechanism Regulation (EU) 525/213. At present, North Macedonia lacks an effective monitoring, reporting and verification system. In turn, the competencies and responsibilities for managing the existing GHG inventory system are not clearly defined (Energy Community Secretariat, 2021[8]; Energy Community Secretariat, 2020[10]).

To meet its GHG emissions reduction target and the objectives of the NECP, North Macedonia requires a more ambitious strategy for decarbonising its energy sector. North Macedonia's Energy Development Strategy 2040 includes 63 policy measures; for energy efficiency improvements, decarbonisation, R&D and competition, and enhancing the legal and regulatory framework. The strategy outlines three scenarios for greening the energy sector and decarbonisation – reference, moderate transition and green – with specific targets for key areas within the timeframe to 2040. The aims for GHG emissions reduction range from 8.1% to 61.4% by 2040 as compared with 2005. The share of renewables in gross final energy consumption is targeted at 35% to 45% (compared with 19.5% in 2015). Concerning reduction in primary energy consumption, the aim is 34.9% to 51.8% as compared with business as usual. Reduction in final energy consumption aims for a decrease of 14.2% to 27.5% against business as usual. The strategy also aims for full compliance with the Energy Community *acquis.* Importantly, the strategy aims to meet these targets at the lowest cost; this implies that only the moderate transition and the green scenarios would involve a full coal phase-out and the closure of all of thermal power plants (Government of North Macedonia, 2020[7]). In 2018, North Macedonia's GHG emissions were 14.8% lower than in 2005. Thus, compliance with the reference scenario (8.1% reduction by 2040 as compared with 2005) would actually allow for an increase in GHG emissions by 2040 as compared with 2018 (World Bank, 2021[11]). At present, North Macedonia is not on the right trajectory for meeting the strategy's renewable energy target: the share of renewables in gross final energy consumption fell from 19.5% in 2015 to 16.8% in 2019 (Eurostat, 2021[12]).

18.2. Do more to include stakeholders from the private sector, civil society and academia in energy, climate and environmental policy making

North Macedonia has already established an institutionalised dialogue between the public sector and CSOs on environmental issues. Collaboration with civil society is important for the legitimacy and public acceptance of energy, climate and environmental policies. Under the Ministry for Environment and Physical Planning, the National Coordinative Body (NCB) for collaboration with civil society organisations, active in the field of environmental protection, comprises more than 100 CSOs in the fields of energy, environment and agriculture. The Ministry of Environment and Physical Planning regularly consults the NCB for the preparation and revision of strategic documents and legislation.

Access to information and public participation in energy and climate decision making processes could be further improved. Information on energy and climate policies is not always easily accessible to the public, even though, as stipulated by the Law on Free Access to Public Information, public institutions are obliged to publish information on decision-making processes, strategic documents and legislation. Potential exists for stronger public participation and consultations in decision-making processes. Slovenia provides a strong example of reforms to enhance public participation. In 2020, it launched an online platform for exchange and provision of up-to-date information to local authorities, CSOs, businesses and other stakeholders as a means to include citizens and civil society in preparing a long-term national strategy for the restructuring and transition of coal regions (most importantly, closure of the Premogovnik Velenje coal mine and phase-out of the Termoelektrarna Šoštanj thermal power plant), (Balkan Green Energy News, 2020[13]).

Improving private sector representation in North Macedonia's National Council for Sustainable Development is important to enhancing the council's visibility and impact. The mandate of the National Council for Sustainable Development is to advise the government on implementation of the National Strategy for Sustainable Development 2009-2030 (adopted in 2010). At present, the Council remains dominated by government representatives: of 23 members, representatives comprise: 13 ministries in the government; 1 representative of the Macedonian Academy of Sciences and Arts; 4 from economic chambers and 5 experts from academia. According to information available, the Council last convened in 2018 (Green Development Republic of North Macedonia, 2018[14]; UNECE, 2019[15]); clearly, its visibility and impact could be significantly strengthened.

Existing initiatives by civil society and the international community to raise awareness on energy, climate and environmental issues in North Macedonia provide a good basis to build on. In 2020, CSOs active in education and awareness raising on environmental issues in North Macedonia launched the Climate Coalition in order to increase citizen participation in decision-making processes and in monitoring the implementation of energy, climate and environmental legislation (EKOSVEST, 2020[16]; CNVP, 2020[17]). North Macedonia set up its first Aarhus Centre in 2019, in support to the Aarhus Convention,[3] which establishes a number of rights for individuals and CSOs with regard to the environment (UNECE, 2021[18]). By establishing an Aarhus Centre, North Macedonia has provided a platform to engage citizens, governments and the private sector in dialogue on environmental challenges, support public participation in the areas of energy, climate and environment, facilitate access to environmental information and assist governments in implementing the Aarhus Convention. Activities to foster awareness on green policies have further been increased since North Macedonia's involvement with the Green Climate Fund (GCF) in 2019. Most importantly, extensive consultations were engaged with relevant stakeholders to ensure alignment between chosen GCF priorities and relevant national strategies and on-going efforts (Green Climate Fund, 2022[19]).

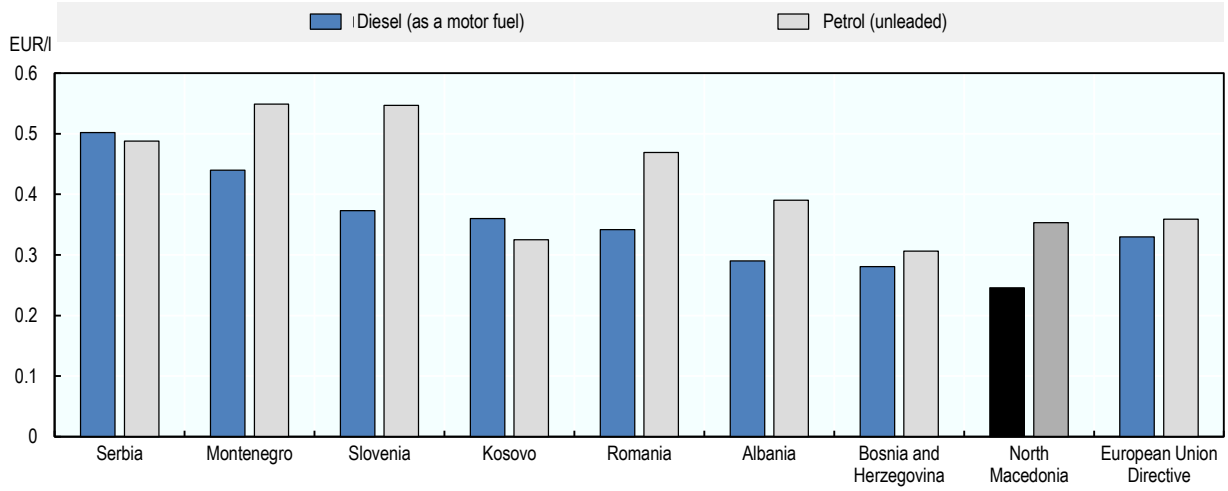
18.3. Step up carbon pricing and phase out fossil fuel subsidies

Increasing excise taxes on fuels would reduce pollution while also generating additional resources for investment in low-carbon technologies. North Macedonia has one of the lowest excise taxes on diesel in the Western Balkan region (EUR 0.25 per litre (/l) compared with EUR 0.48/l in Serbia, EUR 0.36/l in Kosovo and EUR 0.29/l in Albania). This rate is 25% lower than the minimum prescribed by the EU Energy Taxation Directive (EUR 0.33/l) (Figure 18.2). Even though diesel is more polluting than petrol, the excise tax on diesel is lower than on petrol (EUR 0.36/l). In 2019, North Macedonia's excise revenues from fuel and energy amounted to only 1.5% of GDP compared with an EU average of 2% of GDP (World Bank, 2020[20]). Other European countries have increased taxes on transport as part of their green transitions. Germany introduced a carbon tax equal to EUR 25 per megatonne of carbon dioxide (Mt CO_2) from January 2021 for the transport and heating sectors (covering petrol, diesel, heavy fuel oil and natural gas).

From 2026, auctions will replace the fixed price in Germany, within a price corridor set at EUR 55 to 65/Mt CO_2 (Franke, 2020[21]).

Figure 18.2. Excise taxes on fuels in North Macedonia are among the lowest in the Western Balkan region

Excise taxes on fuels (EUR/l)



Source: World Bank (2020[20]), Environmental Tax Reform in North Macedonia, https://openknowledge.worldbank.org/handle/10986/34679.

StatLink https://stat.link/8doitf

Fully phasing out subsidies for coal in North Macedonia could encourage energy savings and free up public financial resources for different purposes. Reducing subsidies for coal was a priority suggested by peer-learning participants. Subsidies for coal in North Macedonia are already comparatively low within the Western Balkan context: Between 2015 and 2019, subsidies (through public finance support) for electricity generation from coal by state-owned enterprises (SOEs) amounted to EUR 1.92 million annually on average in North Macedonia – about half of the regional average. In 2018-19, the average amount of direct subsidies per megawatt hour (/MWh) in North Macedonia (EUR 0.64/MWh) was the lowest in the region (Figure 14.13 of Chapter 14) (Miljević, 2020[22]). However, both coal excavation and electricity generation from coal have been stepped up in North Macedonia recently, to boost electricity output and avert price hikes as a consequence of globally high and rising energy prices. This is likely to result in an increase in the total amount of subsidies spent on coal in North Macedonia in the near future. At the same time, North Macedonia is planning to increase public transfers to state-owned electricity energy companies (Balkan Green Energy News, 2021[1]).

Compensating poor households for higher electricity and fuel prices is vital to achieve a just transition. Low fuel taxes and subsidies for coal, which lead to low electricity prices, serve as indirect income support for households. However, they are highly inefficient as measures for poverty reduction, since most of the benefits go to higher income households that consume more energy. Poor households could be compensated for higher electricity and fuel prices through targeted, income-based support, such as social benefits or vouchers for a monthly allowance of electricity consumption. Subsidies for energy efficiency improvements, such as low-carbon heating technologies and insulation of residential buildings, could reduce actual energy consumption and thus the energy bills of poor households (OECD, 2021[23]). In 2021, North Macedonia introduced electricity vouchers for vulnerable households to support them in

dealing with globally high and increasing energy prices (SeeNews, 2022[24]). Going forward, it would be important to maintain and to further expand these vouchers whilst reducing energy subsidies.

The social and economic impact of closing coal mines could be alleviated through targeted measures to support coal miners who become unemployed. Measures could include re-skilling programmes, in combination with monetary compensation and public employment programmes in sectors requiring similar skills (Szpor, 2021[25]; Szpor, 2018[26]). North Macedonia's coal mines and coal-fired thermal power plants, located in the regions Bitola and Kičevo, employ approximately 4 000 workers. Taking into account these workers' family members, approximately 12 000 people in Bitola (12% of population) and 4 000 in Kičevo (14.8% of population) depend directly on electricity generation from coal. Many small companies and their employees in these regions also depend on coal mines.[4] Thus, unless mitigation measures are put in place, phasing out coal is likely to result in significant job losses and increased poverty, with significant impacts on these local economies.

18.4. Create enabling conditions for renewable energy development in North Macedonia

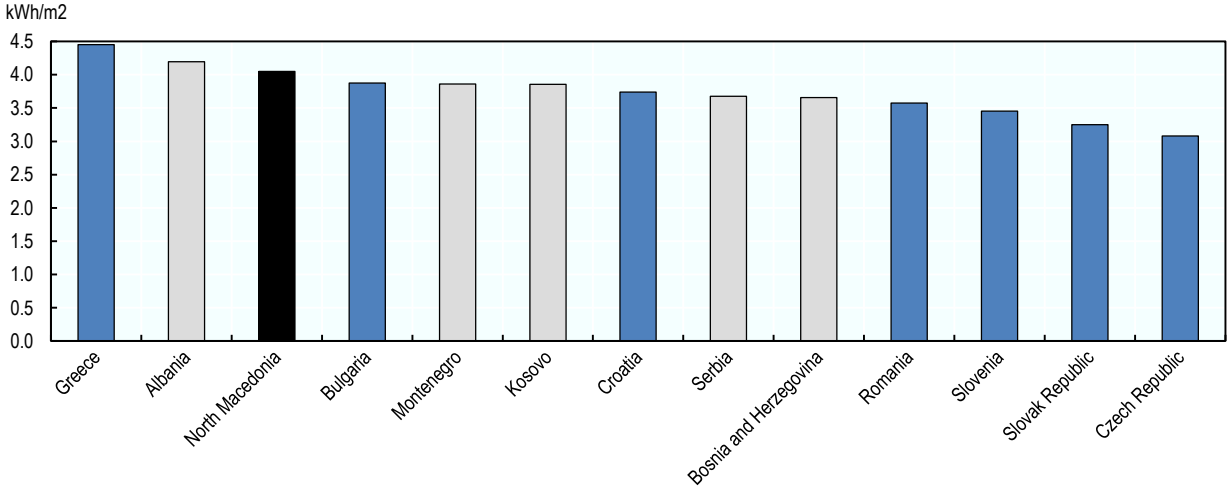
Scope exists to significantly scale up solar and wind power in North Macedonia. In 2019, renewable energy accounted for 22.9% of electricity generation in North Macedonia, with generation from hydropower holding a massive share (86.6%) (Eurostat, 2021[12]). A further breakdown shows that 77.9% of hydropower comes from large hydropower plants (>10 MW) and 22.1% from small hydropower plants (SHPPS) (<10 MW) (2020). Wind energy constitutes only 7.8% of electricity generation from renewables, while smaller shares are from biogas (3.8%) and solar photovoltaic (PV) (2.7%) (2020). These low figures fail to reflect that North Macedonia has one of the highest potentials for solar energy in the region. The share of renewables in gross final energy consumption in North Macedonia was 18.1% in 2018 – less than in 2017 (19.6%) and below the 23% target for 2020 (according to Directive 2009/28/EC on promotion of the use of energy from renewable sources) (Energy Community Secretariat, 2020[10]).

The share of small, private-owned companies – mainly small hydropower, solar PV and biogas plants – in electricity generation in North Macedonia is increasing but remains low. In 2020, it stood at 5.69%, equivalent to 291.91 MW (ERC, 2021[27]). The largest private-owned electricity generation plant is TE-TO Skopje, a natural gas-fired combined cycle heat and power plant (installed capacity of $220MW_e/160MW_{th}$), which is primarily a Russian private investment (Te-To AD Skopje, 2021[28]). At the beginning of 2021, the first private-owned wind park opened (30MW) – an investment by a Slovenian company (The Slovenia Times, 2021[29]). A public-private partnership (PPP) project is under development (ESM AD and private investors from Turkey and Bulgaria) for a 100 MW (2x50MW) solar PV plant close to the Oslomej coal-fired plant in Kičevo (sited on a depleted coal mine) (Balkan Green Energy News, 2021[30]). Private investors for these projects were selected through electronic auctions.

The use of feed-in premiums (FiPs), as opposed to feed-in tariffs (FiTs), can improve transparency in the selection of investors and result in lower prices. North Macedonia incentivises renewable energies through both FiTs and FiPs. The market operator is required to buy electricity generated by producers benefiting from FiTs, whereas electricity producers benefiting from FiPs sell their electricity in the market. In 2020, 203 producers of electricity from renewable resources – mainly SHPPs (58.8%) but also wind farms, biomass, biogas and solar PV - with a total installed capacity of 148.5 MW benefited from FiTs. The first FiP auctions were conducted in 2019, with first contracts signed in 2020. Total installed capacity for electricity generation benefiting from FiPs is 62 MW, mainly larger solar PV plants. In North Macedonia, auctions are based on bids for an additional fixed FiP, on top of the price realised by selling each kWh of electricity on the wholesale market (Energy Community Secretariat, 2021[8]).

Figure 18.3. North Macedonia has the second-highest potential for solar PV in the Western Balkan region

Daily average theoretical solar PV potential (kWh/m^2), 2020



Note: Theoretical PV potential: Global horizontal irradiation (GHI, measured in kWh/m^2/day): the long-term amount of solar resource available on a horizontal surface on Earth.
Source: ESMAP (2020[31]), *Global Photovoltaic Power Potential by Country*, https://globalsolaratlas.info/global-pv-potential-study.

StatLink https://stat.link/h1n7dz

North Macedonia could better take advantage of solar irradiation through self-consumers (prosumers). A net-billing scheme governed by the Rulebook on Renewable Energy allows households to install up to 4 kW and small businesses up to 20 kW of renewables for self-consumption. By mid-2021, only 42 self-consumption installations had been put in place. In its Energy Development Strategy and NECP, North Macedonia set a target for 250 MW of rooftop PV by 2030 and 400 MW by 2040 (Energy Community Secretariat, 2021[8]).

More subsidies for solar PV prosumers could boost renewables in North Macedonia. In 2021, North Macedonia adopted a programme to promote renewable energies and energy efficiency in households. Of the programme's total budget of EUR 840 000, it stipulates that EUR 130 000 be directed towards subsidies for renewable prosumers. The subsidies available amount to 30% of the cost and installation of solar thermal collectors, which is boosted to 70% for low-income households (approximately 650 households covered in total) (Ministry of Economy, 2020[32]).

North Macedonia requires a more flexible electricity system, and needs to upgrade its transmission grid to facilitate integration of solar and wind power into its electricity mix. As larger amounts of variable renewable energy resources are integrated in North Macedonia's electricity mix, management of the transmission grid becomes more complex. It also creates the need for greater grid flexibility through better regional interconnection, storage facilities and integration of a larger amount of flexible generation technologies (e.g. flexible biomass, natural gas) in the energy mix (European Commission, 2020[33]). North Macedonia has recently signed memoranda of understanding to invest in the gas power plant in Alexandropolis, Greece, with a 25% share and in the LNG terminal with a 10% share. In July 2021, North Macedonia and Greece signed an agreement for the construction of a cross-border natural gas interconnector (SeeNews, 2022[34]). These agreements could facilitate a reliable natural gas supply in North Macedonia, and a higher share of natural gas in North Macedonia's electricity mix. In addition, North

Macedonia currently plans the construction of the 333 MW Chebren hydropower plant, which could increase storage capacity complementary with intermittent renewables such as sun and wind.

Simplified investment procedures and better access to financing could facilitate more private investment in renewable energy. The private sector in North Macedonia lacks information on the procedures for investing in renewable energy. In parallel, administrative procedures remain cumbersome and time-consuming, with procedures for land usage approval and obtaining construction permits being particularly complicated. As revenues from renewables accumulate slowly over time, the large up-front investment required is a deterrent. A "fast-track" investment procedure could accelerate and simplify the process, while special training sessions for potential investors could improve access to information.[5]

Establishment of energy communities could facilitate more investment in renewables. In 2020, a municipality in Skopje launched an energy communities project to promote investment in and development and use of renewable energy facilities. Through these energy communities, households and multi-apartment buildings can join together to invest in renewable energies (e.g. solar PV, wind and biomass) and become energy producers. Croatia is a good example to follow, now having eight local energy communities (NEEP, 2021[35]) through which citizens, companies and municipalities in the same location jointly invest in renewable energies. These energy communities follow democratic principles of decision making, with members sharing both risks and profits.

Ensuring that SHPPs complete EIAs before construction is critical, as is ensuring they carefully monitor their actual impacts on the environment. In 2020, SHPPs in North Macedonia accounted only for a small share of electricity generation: 107 SHPPs accounted for 5.5% of electricity generated and 4.5% of installed capacity. However, SHPPs often have negative impacts on the environment and biodiversity. Many SHPPs are located in areas with a high degree of biodiversity, including protected areas such as the Navrovo National Park (CEE Bankwatch Network, 2017[36]). To date, none of the existing SHPPs underwent a complete EIA before construction, and little effort is made to minimise the negative impacts of SHPPs on biodiversity. Some SHPPs constitute a threat to several endangered species and some obstruct fish passes (CEE Bankwatch Network, 2017[36]).

Increasingly shifting from promotion of SHPPs to solar and wind power generation would reduce environmental impacts. Despite their negative impact on the environment and local communities, SHPPs continue to benefit from generous incentives through FiTs. At present, there is no cap on the total number of SHPPs that can receive FiTs whereas such caps exist for biogas, biomass and solar. A lack of transparency in the distribution of licenses and subsidies for SHPPs is also problematic; investors in SHPPs often have connections to politicians and political parties (CEE Bankwatch Network, 2019[37]).

18.5. Create the right incentives and enabling conditions for energy efficiency improvements in buildings

Improving the insulation of buildings in North Macedonia is of vital importance. A large share of buildings in North Macedonia are poorly insulated: many multi-apartment buildings (particularly those constructed between 1965 and 1980) and public buildings have no thermal insulation at all. In February 2020, North Macedonia began conducting a country-wide assessment of the energy performance of the residential housing stock (which is ongoing).[6]

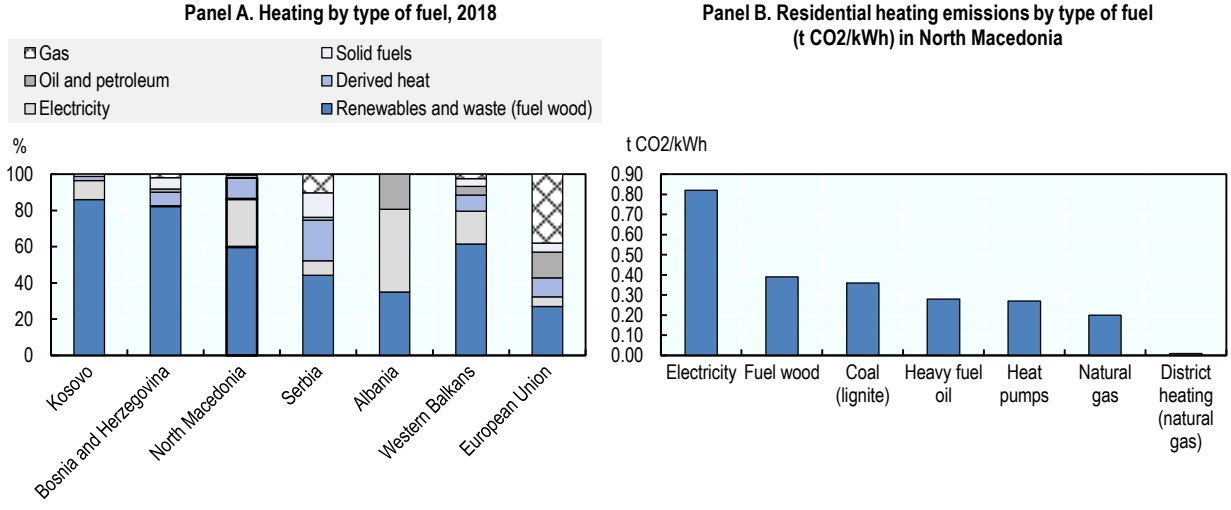
Reducing heating based on fuelwood and electricity generated from coal could enhance energy efficiency in North Macedonia. Renewables and waste (mainly fuel wood) represent 59.9% of space heating and electricity 26.6% (Figure 18.4 - Panel A), mainly due to their affordability. Electricity is an affordable source of heating, since low electricity prices are sustained by fossil fuel subsidies. More energy efficient and less carbon-intensive district heating systems (typically firing natural gas in combined cycle mode) are available only in parts of the capital, Skopje, where 24.8% of households (11.6% of all

households in the economy) are connected to the district heating system (MoEPP, 2018[38]). Electricity is particularly carbon intensive due to the low energy efficiency of coal-fired thermal power plants (Figure 18.4 - Panel B). Fuelwood-based heating is less CO2 intensive than heating based on electricity but a significant source of air pollution. District heating through gas-fired plants is least carbon-intensive, while natural gas heating systems and heat pumps powered by electricity from thermal power plants fall in between (Figure 18.4 - Panel B) (Takahashi and Louhisuo, 2021[39]; Quaschning, 2021[40]). For public buildings connected to district heating, average annual energy consumption is 147 kWh/m^2; consumption is almost double – 285 kWh/m^2 – for those using individual heating stoves (mainly schools and health facilities in rural areas) (Government of North Macedonia, 2011[41]).

North Macedonia should consider banning the use of fuel wood and coal for heating and cooking in urban areas. The high use of fuel wood is not only contributing to GHG emissions but also causes significant air pollution and local health impacts. CSOs in North Macedonia are advocating for a law banning the use of fuel wood and coal for heating and cooking in urban areas.[7]

Figure 18.4. North Macedonia's reliance on fuel wood for heating results in high CO2 emissions and air pollution

Heating by type of fuel (%), 2018 (Panel A), and residential heating emissions (t CO2/kWh) by type of fuel (Panel B)



Source: Panel A: Eurostat (2021[12]), Eurostat (Database) , https://ec.europa.eu/eurostat/. Panel B: Authors' elaboration based on Takahashi and Louhisuo (2021[39]), IGES List of Grid Emission Factors, www.iges.or.jp/en/pub/list-grid-emission-factor/en?__cf_chl_jschl_tk__=pmd_5ece26e096f74821f6f7383b58f70d21ed16675f-1628854847-0-gqNtZGzNAfijcnBszQcO; Quaschning (2021[40]), Specific Carbon Dioxide Emissions of Various Fuels, www.volker-quaschning.de/datserv/CO2-spez/index_e.php.

StatLink https://stat.link/q7ufjz

North Macedonia should connect more buildings to district heating systems, or to the natural gas grid. Studies estimate that connecting all buildings in Skopje to district heating where it is available would reduce PM2.5 pollution by 7% (Faculty of Mechanical Engineering, 2017[42]). Installing natural gas-based heating in all buildings in areas connected to the natural gas grid could also reduce air pollution and GHG emissions. In 2014, North Macedonia made it mandatory to install natural gas infrastructure in all new buildings (Government of the Republic of North Macedonia, 2014[43]). Similar regulations could be put in place to mandate that new buildings be connected to district heating where available, through amendments to the laws on energy and construction. A comprehensive cost-benefit analysis could identify areas in which constructing either district heating systems or expanding the natural gas grid would be beneficial.

There is a need to make district heating systems more efficient and less polluting. Currently, North Macedonia's district heating systems are entirely based on natural gas (Energy Community Secretariat, 2021[8]). The systems need to be upgraded and modernised to reduce technical losses to reduce both energy consumption and associated emissions; integrating renewable energies could make them less polluting. An interesting example is found in Vienna (Austria), where surplus electricity from wind power plants is converted into heat and integrated into two district heating plants (Balkan Green Energy News, 2021[44]).

Scope exists to scale up financial incentives for energy efficiency improvements in residential buildings. In recent years, some 10 000 households in North Macedonia have received subsidies to replace wood stoves with heat pumps. In 2021, North Macedonia adopted a programme to promote renewable energies and energy efficiency in households. Of a total budget of EUR 840 000, an amount of EUR 360 000 is earmarked to subsidise the purchase and installation of Polyvinyl Chloride (PVC) or aluminium windows. This will support uptake by approximately 1 100 households, with 50% of the cost covered for most and 70% for low-income beneficiaries. An amount of EUR 230 000 will be directed towards the purchase and installation of pellet stoves, enough for approximately 700 households, with the same shares of costs covered (50% for most and 70% for low-income beneficiaries) (Ministry of Economy, 2020[32]). In reality, some 100 000 households in North Macedonia are in need of this type of subsidy for energy efficiency improvements. More subsidies are needed, particularly in areas with no access to district heating systems or the natural gas grid.[8] The planed Strategic Green Investment Fund, discussed above, and a planned Energy Efficiency Fund, discussed below, could help close the financing gap for energy efficiency improvements.

The institutional and regulatory framework for energy efficiency improvements in multi-apartment buildings could be improved. North Macedonia recently adopted new regulations for the management of multi-apartment buildings, which stipulate (among other things) the establishment of reserve funds (Government of the Republic of North Macedonia, 2014[43]). At present, however, reserve funds can be used only for maintenance – not for energy efficiency improvements.

18.6. Implement existing energy efficiency policies and legislation in North Macedonia

Timely implementation of relevant policies is critical to enhancing energy efficiency. Implementation of energy efficiency legislation is slow in North Macedonia. Accelerating the adoption of secondary legislation of relevant laws, such as the Law on Energy Efficiency, and the implementation of these laws are both necessary (Energy Community Secretariat, 2020[10]).

North Macedonia has already established an institution dedicated to the co-ordination and implementation of energy efficiency policies. The Energy Agency of the Republic of North Macedonia is responsible for the implementation of both energy efficiency policies and renewable energy policies. Its main competencies in the area of energy efficiency are drafting national energy efficiency action plans, monitoring and evaluating the implementation of energy efficiency measures, monitoring the implementation of energy audits in large companies and energy efficiency criteria in public procurement, and implementing energy efficiency projects by international donors (Energy Agency of the Republic of North Macedonia, 2022[45]). However, the Energy Agency suffers from a shortage of human and financial resources. There also remains some overlap in the competencies of the Energy Agency and the Ministry of Economy's Energy Department. There is a need to increase the Energy Agency's budget and human resources, in particular in the light of the assignment of new competencies to the agency through the 2020 Law on Energy Efficiency (Government of North Macedonia, 2020[7]).

North Macedonia adopted a new fourth National Energy Efficiency Action Plan (NEEAP) in 2021. North Macedonia's fourth NEAP replaces the third NEAP 2016-18 and proposes 30 energy efficiency

measures for the period 2019-22, including measures for the promotion of renewable energies, measures to enhance the energy efficiency of buildings such as retrofitting of buildings and the promotion of more energy efficient heating systems, and measures targeting the transport sector. It aims at cumulative energy savings of 271 ktoe by 2022. The cost of implementation is estimated at EUR 1 300 million, to be provided by the central government, private companies and financial institutions and donors (Government of North Macedonia, 2021[46]).

Fully implementing North Macedonia's Law on Energy Efficiency and finalising secondary legislation is important. In February 2020, North Macedonia's Parliament adopted a Law on Energy Efficiency, transposing, *inter alia,* the EU Energy Efficiency Directive (EED) and setting specific targets as required under its Article 5 (energy renovation of at least 3% of the floor area of all public buildings, annually) and Article 7 (energy companies obliged to achieve annual energy savings of 1.5% of total annual sales to final customers). By-laws on energy saving requirements for energy companies, the buildings renovation strategy, energy audits and energy service contracts are currently being drafted but have not been adopted. Similarly, the Rulebook for an Information System for Monitoring and Management of Energy Consumption by the Public Sector, and the Rulebook for Energy Audits in Industry and the Commercial Sector, remain to be adopted (Energy Community Secretariat, 2020[10]).

North Macedonia should prioritise rapid operationalisation of its Energy Efficiency Fund. The Law on Energy Efficiency stipulates the establishment of an Energy Efficiency Fund to support the realisation of energy efficiency measures and policies. This fund has not yet been effectively established (Macedonian Academy of Sciences and Arts, 2010[47]), reflecting the need for North Macedonia to secure a stable source of financing for it (e.g. the revenues of environmental taxes). In a relevant example, Croatia has a very successful Energy Efficiency Fund through which it has been able to reconstruct a significant number of public buildings (particularly hospitals) (EBRD/Energy Community Secretariat, 2020[48]).

18.7. Build the right workforce skills for scaling up renewable energies and energy efficiency improvements

To stimulate investment in renewables and energy efficiency improvements, North Macedonia needs to build capacity in skills that are in demand. Green skills related to renewable energies, in particular the installation, operation and maintenance of renewable energy generation plants (e.g. wind turbines and PV systems), green transport and energy efficiency of buildings are lacking in North Macedonia. Green jobs are not listed in the economy's 2015 National Classification of Occupations (State Statistical Office, 2015[49]), but the creation of such jobs is featured in national strategies and action plans, including the National Employment Strategy (Government of the Republic of North Macedonia, 2015[50]). It is vital to involve all relevant stakeholders – including the Ministry of Education, chambers of commerce and the academic community – in efforts to identify green skills that are lacking, and to create green curricula.

Incorporating more green curricula in North Macedonia's secondary and higher education systems is necessary for the energy transition. To date, most efforts to generate green skills are limited to organising trainings for unemployed workers such as plumbers or construction workers. Sporadic workshops, seminars and trainings in green skills have been offered to a limited number of beneficiaries. The TRAINEE project (in 2016/17) targeted 340 blue-collar workers (300 received training in energy efficiency in buildings, 40 in renewable energy skills), 40 technicians, 52 building professionals (engineers) and 20 building information modelling professionals (engineers) (Economic Chamber of North Macedonia, 2016[51]). Additional trainings have been offered in industry, most importantly the European Energy Manager Programme, which certified 100 people (COSMO Innovation Centre, 2020[52]) and the UNIDO Energy Management Systems (EnMS) programme, which certified 26 people between June 2015 and December 2016 (REC, 2020[53]; UNIDO, 2020[54]). University curricula to build green skills exist but remain

relatively scarce: the three best-performing public universities in North Macedonia offer undergraduate and masters programmes in environmental engineering and in sustainable energy and environment (Faculties for Mechanical Engineering in Skopje and Bitola, and Faculty for Natural and Technical Sciences in Štip).

18.8. Indicators to monitor overall policy progress in North Macedonia

To monitor progress in implementing policies for a green recovery in North Macedonia, the OECD suggests a set of key indicators, including values for North Macedonia and benchmark countries (either the OECD or the EU average, based on data availability; Croatia is the benchmark for the number of renewable self-consumers per 100 000 population) (Table 18.2).

Table 18.2. Indicators to monitor progress in implementing policies in North Macedonia

2019, unless otherwise specified

Indicator	North Macedonia	Benchmark value
CO2 emissions per capita (tonnes per capita)	**3.45	**7.64[a]
CO2 emissions per unit of GDP (kg/USD 2015 PPP)	**0.2349	**0.1867[a]
Mean exposure to PM 2.5 air pollution (µg/m^3)	32.70	13.90[a]
Years of life lost (YLL) per 100 000 inhabitants attributable to exposure to PM2.5 pollution	*****1 889	*****1 074[b]
Subsidies for coal (EUR/MWh)	0.64	
Market share of the largest generator in the electricity market (% of total electricity generation)	70.82	44.79[b]
Renewables (% of electricity generation)	22.89	34.94[b]
Solar and wind (% of electricity generation)	2.13	17.66[b]
Renewable self-consumers per 100 000 population	*2.03	**36.93[c]
Space heating using renewables and waste (fuel wood) (% of total)	***59.90	***27.00[b]
Transformation and distribution losses (% of primary energy consumption)	28.02	22.92[b]

Note: *2021, **2020, ***2018, ****2017, *****2016. [a]OECD, [b]EU, [c]Croatia.
Source: Eurostat (2021[12]), Eurostat (database), https://ec.europa.eu/eurostat/; IEA (2021[55]), Data and statistics, www.iea.org/data-and-statistics; EEA (2019[56]), Air quality in Europe — 2019 report, www.eea.europa.eu/publications/air-quality-in-europe-2019; Energy Community Secretariat (2021), www.energy-community.org/regionalinitiatives/WB6/Tracker.html; Miljević (2020[22]), Investments into the past, https://energy-community.org/dam/jcr:482f1098-0853-422b-be93-2ba7cf222453/Miljevi%25C4%2587_Coal_Report_122020.pdf; Miljević, Mumović, Kopač (2019[57]), Analysis of Direct and Selected Indirect Subsidies to Coal Electricity Production in the Energy Community Contracting Parties, https://www.energy-community.org/dam/jcr:ae19ba53-5066-4705-a274-0be106486d73/Draft_Miljevic_Coal_subsidies_032019.pdf; Slok, M. (2021[58]), Incentives and challenges in promoting self-consumption - The case of Croatia, www.energy-community.org/; World Bank (2021[11]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators

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Notes

[1] The Law on Climate Action aims to transpose EU Regulation 525/2013 (on a mechanism for monitoring and reporting greenhouse gas emissions), EU Directive 2003/87/EC (on establishing a scheme for greenhouse gas emission allowance trading within the Community) and EU Regulation No 749/2014 (on structure, format, submission processes and review of information reported by Member States).

[2] Business-as-usual being a situation in which no measures for GHG emissions reduction are taken.

[3] The Aarhus Convention, adopted on 25 June 1998 in the Danish city of Aarhus (Århus), has the official title of the United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-Making and Access to Justice in Environmental Matters at the Fourth Environment for Europe Ministerial Conference.

[4] Information from fact-finding in North Macedonia from expert consultants from CENER21.

[5] Information from fact-finding in North Macedonia from expert consultants from CENER21.

[6] Information from fact-finding in North Macedonia from expert consultants from CENER21.

[7] Information from fact-finding in North Macedonia from expert consultants from CENER21.

[8] Information from fact-finding in North Macedonia from expert consultants from CENER21.

19 A green recovery in Serbia

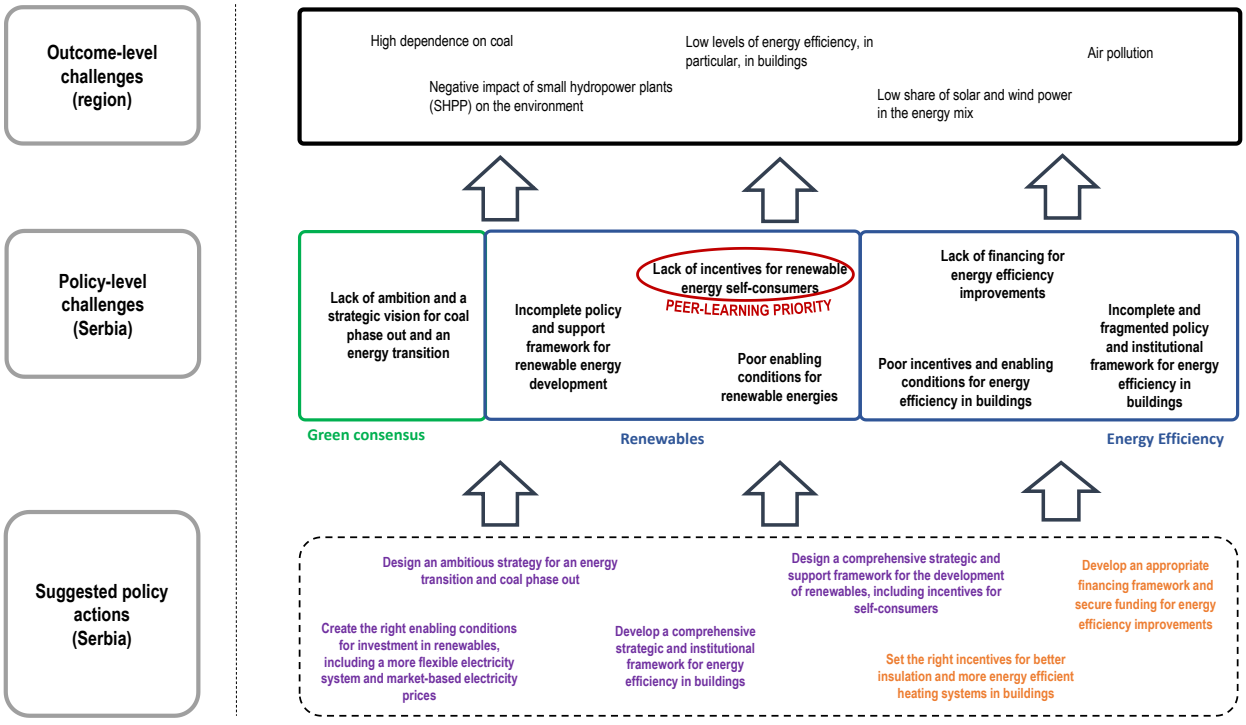
Having made important progress on the legislative foundations for a low-carbon transition, Serbia now faces the challenge of maintaining this momentum and implementing a green recovery. This chapter presents key policy priorities to ensure green recovery through energy transition, especially by phasing out coal. At present, Serbia envisions a stable share of coal in future electricity generation and sets only modest greenhouse gas (GHG) emissions reduction in its Nationally Determined Contribution to the Paris Climate Agreement. Serbia needs to develop a comprehensive strategy for the deployment of renewables, including elimination of its very high subsidies for coal-fired electricity generation, introduction of market-based incentives for renewables, and a more flexible electricity system. A more dynamic regulatory environment will be key, as will streamlining administrative procedures and a stronger framework for financial support. Only a minority of buildings have thermal insulation in Serbia, contributing to low levels of energy efficiency; to address this, the government needs to strengthen the incentives and financing framework for energy efficient heating and insulation in buildings. Another important step is to decarbonise and potentially expand district heating systems.

The Initial Assessment of the Multi-dimensional Review (MDR) of the Western Balkans identified a green recovery as a top policy priority for Serbia and the Western Balkan region as a whole. Energy and air pollution are complex challenges and significant obstacles to future economic development and well-being. Air pollution, unreliable access to clean energy and unsustainable environmental practices were identified as key constraints in Serbia and the Western Balkan region in the Initial Assessment. Serbia's high carbon-intensity in combination with low levels of energy efficiency result in considerable air pollution and greenhouse gas (GHG) emissions. The shares of solar and wind energy in Serbia's energy mix remain low. Building on the initial assessment, the "From Analysis to Action" phase of the project provides policy suggestions to ensure a green recovery in Serbia and the other Western Balkan economies. The peer-learning workshops on green recovery served three complementary aims: to identify problems hampering the green recovery; to identify key policy challenges; and to put forward key policy priorities for Serbia and for the region (Figure 19.1).

In recent years, Serbia has adopted diverse measures for a green recovery across several dimensions. Mostly notably, Serbia adopted three key laws in 2021. The Law on the Use of Renewable Energy Sources aims to facilitate more investment in renewables and introduces renewable auctions for large renewable facilities, based on market premiums. The Law on Climate Change lays the foundation for establishing a system for limiting greenhouse gas (GHG) emissions, in line with the EU Monitoring Mechanism Regulation. The Law on Energy Efficiency and Rational Use of Energy aims to achieve energy savings and reduce the impact of the energy sector on the environment and climate change. Importantly, it defines the roll-out of subsidies to households for energy efficiency upgrades. In addition, Serbia has a Law on Housing Maintenance of Buildings (adopted in 2016), which has considerably improved the regulatory framework for residential housing and for multi-apartment buildings in particular. The law regulates building management and maintenance, homeowner associations, and the calculation of regular maintenance and renovation fees. As regards homeowner associations, the law allows for decision making by simple majority and two-thirds majority votes as well as electronic voting. To secure funding for investment in energy efficiency, Serbia established the Budgetary Fund for Energy Efficiency (BFEE), which is managed by the Ministry of Mining and Energy.

To ensure a green recovery, Serbia must now tackle a set of important challenges that remain. Serbia would benefit from a stronger ambition and a strategic vision for an energy transition that includes the phase-out of coal. At present, Serbia's policy and support framework for renewables remains incomplete: it lacks a clear strategy for renewable energy development and barriers remain for renewable self-consumers. Serbia also needs to create an enabling environment for investment in renewables, including a more flexible electricity system and market-based electricity prices. The existing policy and institutional framework for energy efficiency in buildings is fragmented and Serbia lacks a financing strategy for energy efficiency improvements. The enabling conditions and incentives for more energy efficient heating and insulation in buildings need to be improved (Figure 19.1).

Figure 19.1. Towards a green recovery in Serbia and the Western Balkans



Note: Purple = policy actions developed by peer-learning participants. Orange = policy actions suggested by the OECD.
Source: OECD peer-learning workshops.

Six policy priorities have great potential to ensure green recovery in Serbia, with renewables being the key priority. These policy priorities reflect the issues raised by participants from Serbia at the green recovery peer-learning workshop:

- Design a comprehensive strategy and support framework for developing renewables, including incentives for self-consumers (peer-learning priority)
- Create enabling conditions for investment in renewables, including a more flexible electricity system and market-based electricity prices (peer-learning priority)
- Design an ambitious strategy for an energy transition and coal phase-out
- Develop a comprehensive strategic and institutional framework for energy efficiency in buildings
- Set the right incentives for more energy efficient heating systems in buildings
- Develop an appropriate financing framework and secure funding for energy efficiency improvements

This chapter is divided into seven sections. Sections 19.1 through 19.6 provide policy implications across the six priorities through a prism of challenges specific to Serbia. Section 19.7 provides indicators against which progress in policy implementation can be measured. This chapter is complemented by the regional chapter (Chapter 14), which provides more specific policy options based on international practice that may be applied, with necessary adaptations, also to Serbia.

19.1. Design a comprehensive strategy and support framework for developing renewables in Serbia

Potential exists to considerably scale up solar and wind energy in Serbia, particularly in the light of their increasing cost-competitiveness. In 2019, 29.9% of electricity in Serbia was generated from renewables, with hydropower accounting for the vast majority (90.6%) and much smaller shares of wind energy (8%), biofuels (1.2%) and solar (only 0.1%) (Eurostat, 2021[1]). In 2013, Serbia adopted the its National Renewable Energy Action Plan (NREAP), the National Action Plan for the Use of Renewable Energy Sources, including a target of 27% renewables in gross final energy consumption by 2020 (Balkan Green Energy News, 2021[2]). In 2019, renewables accounted for only 22% of final energy consumption (Eurostat, 2021[1]) and Serbia recently postponed the 27% target to 2025. Currently, Serbia lacks a long-term strategy for integrating renewables in its energy mix as well as credible and ambitious long-term targets for electricity generation from renewable energies. Serbia's NREAP expired in 2020 (Republic of Serbia, 2013[3]).

Peer-learning participants identified prosumers (renewable self-consumers) as crucial for scaling up renewables in Serbia. Given that a large share of citizens own the homes in which they live, Serbia has considerable potential for small-scale renewable installations by households for self-consumption. This concept is still in the early stages of development and, to date, there are no renewable self-consumers in Serbia (Energy Community Secretariat, 2021[4]). Peer-learning participants identified five key actions to promote and support more self-consumers: finalise the legal framework for renewables; ease administrative procedures for investment in solar photovoltaic (PV) panels; establish a solar cadastre; set an ambitious target for renewables in electricity generation; and secure financing (Box 19.1).

Investment in renewables by self-consumers in Serbia could be facilitated through further simplification of investment procedures and awareness raising. In August 2021, Serbia adopted a decree on self-consumption, introducing a net metering scheme for households and housing communities and a net billing scheme for all other self-consumers. However, investment in renewables by prosumers is still hampered by Serbia's ambiguous regulatory framework. The procedure for connecting rooftop PV systems to the electricity grid is difficult, cumbersome and time-consuming. Households and small investors often lack knowledge on procedures for installing rooftop PV systems (Energy Community Secretariat, 2021[4]; Energy Community Secretariat, 2021[5]).

Determining where the potential for self-production and -consumption of renewables is highest is vital to optimising the impact of support schemes. Serbia currently lacks a solar cadastre to calculate the electricity production potential of each roof in the economy, as well as detailed data on electricity grid capacities and load profiles of different parts of the grid. A solar cadastre helps prioritise renewable energy investment at the distribution grid level. In turn, this could exploit synergies with electricity generation from wind and minimise the hours in which electricity is fed into the transmission network via the distribution grid by renewable self-consumers.[1]

Box 19.1 Outcomes of the green recovery peer-learning workshop – Serbia

Participants from Serbia (representing government, the private sector and civil society) in the OECD green recovery peer-learning workshop identified increasing the share of renewable energy by expanding the number of prosumers as the top priority. They suggested that renewables for self-consumption represented an opportunity for businesses and job creation. Participants drafted an action plan that could complement current policy efforts in Serbia; more specifically, they suggested six actions with corresponding measures and indicators (Table 19.1).

Table 19.1. Increase the share of renewable energy by increasing the number of prosumers

Action plan, measures and indicators

Actions	Measures and indicators
Action 1: Amend the regulatory framework and harmonise the law on energy with EU renewable energy legislation	
Action 2: Adopt a set of energy laws (energy law, renewable energy law, law on energy efficiency)	• Laws have been adopted • The adoption of bylaws is ongoing
Action 3: Ease administrative procedures for solar PV installation	• Number of institutions from which an authorisation is required • Number of application forms required
Action 4: Make a solar cadastre	• The terms of reference for the solar cadastre are prepared • Financing is secured
Action 5: Establish a goal of 100% renewable production of electricity with clear back-casting of penetration of renewables	
Action 6: Establish a fund to support the use of renewable energy in individual households	

Source: OECD peer-learning workshops.

Peer-learning participants stressed the need to secure financing for renewable self-consumers. Most non-household prosumers will install 50 kW to 100 kW of solar power and thus require small loans that are of little interest to local financial institutions. Effort is needed to raise the interest of financial institutions and the private sector in financing renewables and to educate them on the characteristics of renewables. Participants also suggested financing subsidies for households through a fund for energy efficiency improvements and raising financial resources through carbon pricing. Securing loans from international financial institutions (IFIs; e.g. the European Bank for Reconstruction and Development [EBRD] or the Kreditanstalt für Wiederaufbau [KfW]) to local commercial banks was also suggested as a means to provide loans to prosumers.

Participants highlighted the importance of raising awareness and technical support for renewable self-consumers, who typically lack experience and knowledge on both investment in renewables and the cost and profitability of such systems. A public debate on large-scale deployment of renewables for self-consumption was recommended. As regards the need to ease administrative procedures to invest in renewables for self-consumption, participants recommended establishing a one-stop shop for all aspects of the process.

Lastly, participants emphasised the need for more research to demonstrate the feasibility of renewables in Serbia. They identified a solar cadastre as top priority, as it is key for operators and consumers to have information on the solar potential of different areas. Establishing a solar cadastre at the regional level was put forth, possibly through the Energy Community.

Source: OECD peer-learning workshops.

Establishing and completing other support mechanisms for renewables, including auctions, is also important to boosting renewables. Serbia adopted the Law on the Use of Renewable Energy Sources in 2021, which aims to facilitate more investment in renewables (most importantly solar plants and wind farms) and to increase the share of electricity generated from renewables. The law introduces renewable auctions for large renewable facilities based on market-premiums but maintains feed-in tariffs (FiTs) for small-scale facilities (below 500 kilowatts [kW] for PV and below 3 megawatts [MW] for wind plants). FiTs also apply to demonstration projects, defined as non-commercial renewable facilities that demonstrate a relevant novel technology and represent a significant innovation. Auctions can reduce the cost of renewables. The law also introduces the concept of energy communities and collective investment in renewable energy facilities. At present, secondary legislation specifying and clarifying more details of the

newly introduced support schemes and collective investment in renewable energies remains to be adopted (Kinstellar, 2021[6]; Energy Community Secretariat, 2021[4]).

Improving Serbia's regulatory and administrative environment for renewable energies is also vital, as is reinforcing the electricity grid. Challenges persist in Serbia's permitting system and in the grid infrastructure and its management. The electricity grid needs to be modernised and strengthened to be able to absorb large volumes of variable wind and solar energy. A first step would be to develop a technical assessment of options to achieve this, and its costs. Further, transmission system operators (TSOs) have limited experience with connecting large solar and wind parks to the grid. Finally, Serbia's balancing market has not yet been liberalised yet and remains monopolistic. Beyond posing a direct obstacle to investments in renewable energies, these challenges also result in a risk premium and higher financing costs for renewable energy projects (New Climate Institute, 2019[7]).

19.2. Create the right enabling conditions for investment in renewables

Quickly dispatchable gas-fired power plants could make Serbia's electricity system more flexible. Currently, inflexible coal-fired thermal power plants (TPPs) generate 68% of electricity in Serbia. These plants are slow to shut down and restart. Serbia is in the process of securing a stable natural gas supply, a pre-condition for gas-fired power plants that can be dispatched more quickly. Since Serbia is landlocked, mechanisms for energy imports are limited to pipeline transport and the Danube River. In 2018, Serbia imported 83% of the natural gas consumed, mainly from Russia. The gas interconnector with Bulgaria, which is still in the planning and construction process, could considerably facilitate Serbia's gas imports, providing an additional supply route and a more stable and secure natural gas supply.[2]

Improved interconnections with neighbouring economies and energy storage are another option for rendering Serbia's electricity system more flexible. Serbia is already in the process of improving the regional interconnection of its grid. An upgrade of the transmission system in Western Serbia is planned as well as of the transmission lines with Bosnia and Herzegovina, and Montenegro. Further integration, flexibility and efficiency could be reached by better integration of electricity markets between Kosovo and Serbia. The connection agreement between Kosovo and Serbia has not been implemented yet (European Commission, 2020[8]).

Increasing electricity prices to align with actual production costs could incentivise more investment in renewable energies for self-consumption. To keep electricity prices low for households, generation from coal is heavily subsidised in Serbia. Although Serbia has reduced subsidies for coal substantially in recent years – from EUR 95.5 million in 2015 to EUR 41.4 million in 2019 – they remain high. Estimated at EUR 1.92 per megawatt hour (/MWh) they rank second-highest in the Western Balkan region, with one study estimating these subsidies to be even higher (Miljević, 2020[9]; Miljević, Mumović and Kopač, 2019[10]; Bjelić and Molnar, 2021[11]).

Raising public awareness of the benefits of renewable energies is also important. Peer- learning participants stressed this point (Box 19.1), noting that public awareness of air pollution has increased considerably over the past four years, as a result of public information campaigns. This has also resulted in higher awareness and better understanding of the energy transition, energy policies and renewable energies. A large share of Serbian citizens now favours development of small-scale solar PV facilities. However, ambiguous and negative attitudes towards renewable energies remain a challenge among some segments of the population.[3]

Action is needed to reduce the negative impacts of SHPPs on the environment and local communities. At the end of 2018, Serbia's state-owned utility, Elektroprivreda Srbije, owned 16 older SHPPs and one newer medium size hydropower plant with a total installed capacity of 40 MW. An additional 99 SHPPs are privately owned. The negative impact that SHPPs have on the environment and

local communities has caused considerable dissatisfaction among citizens. Specifically, SHPPs contribute to deteriorating river habitats and a decline in fish populations. Often, SHPP developers have government connections and use loopholes to proceed to construction without the required permits or environmental impact assessments (EIAs) (CEE Bankwatch Network, 2019[12]; Water Logist, 2020[13]). In some cases, hydropower licences have been issued before completion of the EIAs. In other cases, licensing processes have failed to take the EIA recommendations into account, and issued licenses have later needed to be retracted. In an example from 2019, the Ministry of Environmental Protection ordered a SHPP developer to restore the SHPP site, located in the Stara Planina National Park, to its original state – after the municipality had issued a permit. The 2021 Law on the Use of Renewable Energy Sources introduces a ban on building hydropower plants in protected areas – an important first step towards reducing the negative impacts of SHPPs (Kinstellar, 2021[6]; Energy Community Secretariat, 2021[4]).

19.3. Design an ambitious strategy for an energy transition, including coal phase-out

Serbia requires a clear strategy for an energy transition that includes the phase-out of coal. This implies replacing more than 4 000 MW of coal-fired TPP capacity with electricity production from other sources. At present, Serbia relies largely on domestically produced lignite, which has a low calorific value and relatively high sulphur content. Serbia also has one of the highest energy intensities in the Western Balkan region (Eurostat, 2021[1]). Its fleet of lignite-fuelled TPPs is old and highly polluting, and as a result, Serbia's energy sector accounts for two-thirds of its total carbon dioxide (CO2) emissions. Serbia currently aims to maintain a stable share of coal in its electricity generation mix and plans to open new surface coal mines (Ministry of Mining and Energy, 2016[14]). A mix of renewables and natural gas (to balance the intermittent electricity supply from renewables), in combination with energy efficiency improvements to reduce energy demand overall, could enable the phase-out of coal. As Serbia's domestic production of natural gas is very low and falls short of market needs, as discussed above, new infrastructure for imports is being developed.

Serbia's National Energy and Climate Plan (NECP) is a key strategic document to lay out a strategy for decarbonisation and an energy transition. Among Western Balkan economies, Serbia is the least advanced in the process of drafting its NECP but has accelerated preparations since early 2021. Serbia's NECP will set targets for reducing GHG emissions while boosting renewables and energy efficiency and tackling energy poverty (taking into account Serbia's NDC and Low Carbon Development Strategy). It will cover a ten-year period and will be updated every four years. In the first half of 2021, Serbia amended its Energy Law and introduced the obligation to adopt a NECP (Official Gazette of the Republic of Serbia No. 40/2021) and to establish a working group for the preparation of the NECP, under the lead of the Ministry of Mining and Energy and the Ministry of Environmental Protection. The working group consists of relevant ministries and institutions, public companies, and civil society organisations. Serbia has also established key assumptions for modelling and initiated data collection. Drafting and analytical work is ongoing (Energy Community Secretariat, 2021[4]).

Revising Serbia's energy strategy to include ambitious targets for an energy transition that includes coal phase-out would be another important element in designing an effective decarbonisation strategy. The current Energy Sector Development Strategy is valid until 2025; however, it would benefit from stronger ambition for an energy transition and coal phase-out. In its current form, the strategy envisages a stable share of coal in Serbia's energy mix (Ministry of Mining and Energy, 2016[14]). Serbia's Ministry of Mining and Energy has already started drafting a new Energy Development Strategy 2040 with projections until 2050, which will define Serbia's new energy policy, including new targets for renewable energy, energy efficiency and GHG emissions reduction for 2030. The development of a strategy implementation programme and an action plan for a fair transition are also ongoing. It will be key

to ensure that this new strategy is based on more ambitious decarbonisation goals and defines a trajectory for coal phase out.

A GHG monitoring, reporting and verification mechanism and an improved GHG inventory are key elements for the successful design and implementation of an energy transition strategy that includes coal phase-out. Serbia maintains a GHG inventory, but scope exists to improve it, particularly by obliging individual plants to more strictly monitor emissions. Serbia's Law on Climate Change established the legal basis for a national GHG inventory and inventory report. However, additional technical rules – such as the scope of bodies and organisations responsible for managing information systems and databases – remain to be defined (Serbia and Climate Change, 2019[15]). The Law on Climate Change also introduced the main elements for a GHG monitoring, reporting and verification mechanism, including penalties, but additional technical and procedural regulations remain to be defined (Energy Community Secretariat, 2021[4]).

Serbia requires a more ambitious GHG emissions reduction target. In its Nationally Determined Contribution (NDC) under the Paris Agreement, Serbia pledged to reduce GHG emissions by 9.8% by 2030 as compared with 1990 levels (Republic of Serbia, 2017[16]; UNDP Serbia, 2019[17]). At the time of writing, Serbia was the only regional economy that had not yet officially defined an updated NDC and targets ahead of COP26 (November 2021) (Balkan Green Energy News, 2021[18]; Energy Community Secretariat, 2021[4]).

Ensuring rapid implementation of Serbia's Law on Climate Change is vital. Serbia adopted a Law on Climate Change in 2021, which lays the foundation for establishing a system to limit GHG emissions in line with the EU Monitoring Mechanism Regulation. It also provides the legal basis for a GHG emissions inventory and GHG projections. Those industrial and power plants covered by the law will be obliged to monitor, report and verify their GHG emissions in accordance with EU principles. The Law on Climate Change also envisages the adoption of a Low Carbon Development Strategy (LCDS) within a delay of two years (Republic of Serbia, 2021[19]). Serbia has prepared a draft LCDS but it has not yet been adopted.

Improving implementation of energy, climate and environmental legislation in Serbia is necessary. Existing legislation is often not enforced in Serbia, and implementation deadlines are often not respected. An air protection strategy was proposed with initial deadline for adoption of 2011, which was extended to 2015; at time of writing in 2022, the strategy had not yet been adopted (UNECE, 2015[20]). To improve and accelerate implementation of energy, climate and environmental legislation and strategic documents, realistic time frames need to be established and supported with sufficient human, financial and material resources. Such policies also need to be integrated into sectoral strategies and relevant strategic documents.

Serbia requires a more transparent and inclusive process for energy and climate policy making. Public consultations are planned in the process of designing and adopting Serbia's NECP and Serbia's Parliamentary Energy Policy Forum, a body of the Serbian National Assembly, is informed regularly on the NECP drafting process. However, at present, Serbia lacks an institutionalised dialogue on energy and climate policy making between public entities and the private sector, civil society and academia. Furthermore, according to the amended Energy Law, the government – rather than Serbia's elected parliament – will adopt the NECP.[4]

Scope exists to better apply low-carbon and other environmental criteria in public procurement and to provide appropriate capacity building. In Serbia, the legal framework allows for incorporating low-carbon and other environmental criteria in public procurement processes, including life-cycle costs and carbon costs. At present, these criteria are rarely applied.[5] In line with the Law on Public Procurement's Action Plan for 2021, a training was organised in December 2021 by Serbia's Public Procurement Office with the UNDP's support, with the aim to educate contracting authorities and equip them with practical tools and examples to facilitate the application of green public procurement. Going forward, this training could encourage an increased usage of green criteria in public procurement.

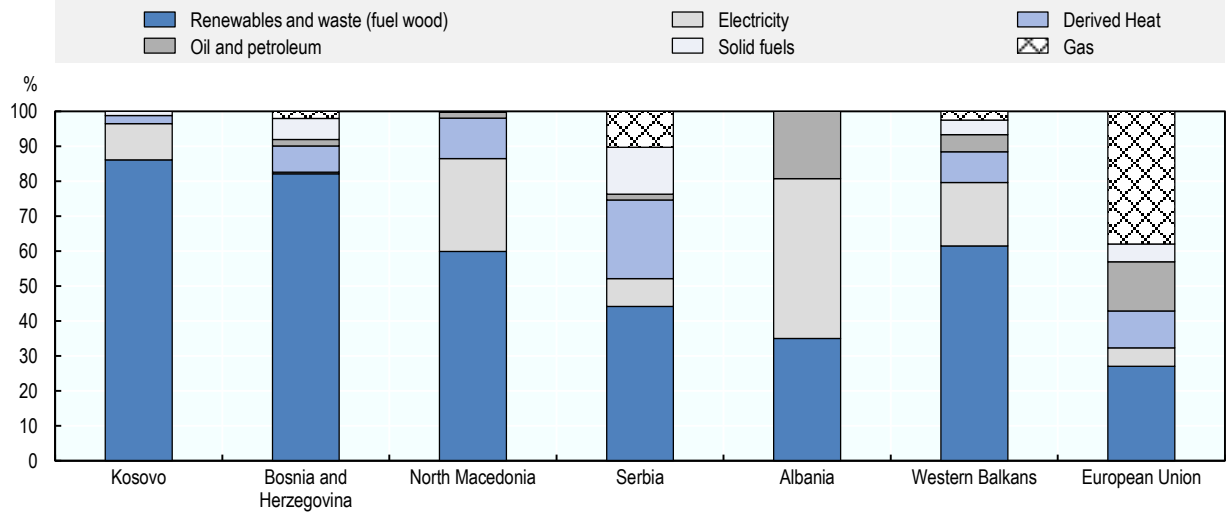
19.4. Develop a comprehensive strategic and institutional framework for energy efficiency in buildings and implement existing legislation

Outdated and poorly insulated residential buildings contribute to high energy consumption by households in Serbia. Nationally, households account for the largest share of energy consumption at 34.1% compared with 32.4% on average in the Western Balkan region and 26.9% in the European Union (Eurostat, 2021[1]). Electricity accounts for 40.6% of household energy consumption and biomass (mainly fuel wood) for 29.6% (2018) (IEA, 2021[21]). Estimates show that 85% of residential buildings have no thermal insulation and that the total potential for energy savings in buildings is 887 kilotonnes of oil equivalent per year (ktoe/year) (USAID, 2020[22]). By reducing household energy consumption, energy efficiency improvements could also lower energy bills.

The prevalence of inefficient devices for space heating is the main contributor to high household energy consumption in Serbia. In 2018, the main fuels for space heating are renewables and waste (fuel wood) (44.1%) and solid fuels (coal) (13.4%); while these shares are below the Western Balkan average, they are much higher than EU averages (Eurostat, 2021[1]). Among households in the lowest decile of the income distribution, the share relying on fuel wood and coal for heating rises sharply to 78% (in 2019) (Republički zavod za statistiku, 2020[23]). A substantial share (22.5%) of households in Serbia rely on derived heat (district heating systems) (Figure 19.2) (2018). 43% of dwellings in Serbia are either connected to district heating systems or equipped with central heating (Đurić, Krstić and Jović, 2019[24]). Many households use inefficient wood stoves and ovens for heating; while the minimum level of efficiency prescribed by legislation in Serbia is 60%, many of these devices operate at only 20% to 40% (Glavonjić, 2014[25]). In addition to driving up energy consumed, these devices lead to high levels of air pollution: household heating accounts for 77% of PM2.5 and 57% of PM10 emissions in Serbia (2018) (Agencija za zaštitu životne sredine, 2020[26]).

Figure 19.2. Serbia relies mainly on renewables and waste, solid fuels and derived heat for space heating

Heating by fuel, 2018



Source: Eurostat (2021[1]), Eurostat (database), https://ec.europa.eu/eurostat/.

StatLink https://stat.link/wn8zfy

In addition to low levels of energy efficiency in buildings, technical energy losses contribute to low levels of energy efficiency in Serbia. Technical energy losses in the energy system in Serbia are the second-highest in the Western Balkan region: Transformation and distribution losses and energy sector consumption are estimated to 38.8% of primary energy consumption in Serbia (2019) compared to averages of 31% in the region and 26.7% in the European Union (Eurostat, 2021[1]) (Figure 14.7 of Chapter 14). These high technical losses are linked to an ageing energy transmission, distribution and transformation infrastructure, a lack of maintenance and suboptimal distribution regimes. Most of Serbia's TPPs are outdated and inefficient. Non-technical losses, including theft, are also high in Serbia.

In 2021, Serbia adopted its fourth National Energy Efficiency Action Plan (NEEAP) (until 2021). As a member of the Energy Community, Serbia is obliged to adopt a NEEAP. Serbia's fourth NEEAP sets energy savings targets for 2020 and 2021 and defines a set of measures to achieve those targets. Measures include an energy efficiency obligations scheme, energy audits, smart metering and the development of ESCOs. Serbia's fourth NEEAP further includes measures for awareness raising on energy efficiency, measures for energy efficiency in buildings, measures to enhance energy efficiency in the industrial sector, measures to improve energy efficiency in the transport sector and energy efficiency measures for energy conversion, transmission and distribution (Republic of Serbia, 2021[27]).

Serbia requires a strategic vision for energy efficiency renovations in buildings, backed up by a holistic policy framework and a strong institutional set-up. Current efforts on building renovation and energy efficiency improvements in Serbia are fragmented and rely strongly on donor and IFI support and funding. Serbia has been lacking a designated institution to lead national policy co-ordination and implementation of energy efficiency measures. The Directorate for Promoting and Financing Energy Efficiency, a new entity within the Ministry of Mining and Energy, which started operations in 2022, could become an important instrument in that regard. Serbia also lacks an inventory of its building stock. Establishing an inventory of the building stock will require detailed information on the technical characteristics of multi-apartment buildings. For this purpose, Serbia could make it mandatory for homeowner associations to produce such reports on a regular basis (USAID, 2020[22]). The development of a long-term building renovation strategy is at its final stage and could accelerate building renovation and policy co-ordination of building renovation measures in Serbia (Energy Community Secretariat, 2021[5]).

Serbia has started to establish support programmes to increase energy efficiency in buildings, and needs to further scale up these efforts. This includes the Pilot Project for Energy Rehabilitation of Residential Buildings, Family Houses and Apartments, launched in 2021, and implemented in co-operation with cities and municipalities. The project offers subsidies of up to 50% for thermal insulation, replacement of inefficient boilers, installation of heat pumps, and solar collectors for water heating. The first pilot project involves 67 local self-government units, and will include more than 5 000 households. Expected energy savings amount to approximately 36 million kWh annually and the expected reduction in CO2 emissions to 12 154 tons per year. The Pilot Project for Energy Rehabilitation of Family Homes, also launched in 2021, subsidises up to 50% of the cost of installation of solar panels. 37 local self-government units participate in the pilot project. The government estimates that more than 500 panels will be installed, resulting in electricity production of 3 GWh per year and CO2 emissions reductions of approximately 3 300 tons per year.

Serbia should prioritise rapid implementation of the Law on Energy Efficiency and the Rational Use of Energy. Adopted in 2021, this law aims to achieve energy savings, thereby reducing the energy sector's impacts on the environment and climate change while also contributing to sustainable use of natural resources. The law rolls out subsidies to households for energy efficiency upgrades, including replacement of windows and doors, installation of insulation in walls and roofs, and replacement of inefficient heating systems (stoves and boilers) with more efficient and less polluting devices. Subsidies will cover 50% of related costs while households will have to cover the remaining 50% (Ministry of Mining and Energy, 2021[28]; European Commission, 2020[8]).

Serbia's Law on Housing and Maintenance of Buildings and secondary legislation should be fully implemented as soon as possible. This law, adopted in 2016 together with secondary legislation, has improved the regulatory framework for residential housing. It regulates building management, homeowner associations, the calculation of regular maintenance and renovation fees, certification of building managers, and provisions for inspection of implementation of the law. Importantly, the law allows for homeowner association decision-making by simple majority and two-thirds majority votes and allows for electronic voting. The law stipulates that housing renovations and thermal retrofitting of residential housing are a matter of public interest (Republic of Serbia, 2021[29]). To date, application and enforcement of this legal framework is lagging. In particular, housing associations of multi-apartment buildings take considerable time to self-organise and face policy ambiguities – such as legal gaps in the registration process of common property – that hamper full operationalisation of the framework. In addition, the provision of funds from national and local government budgets to support residential housing renovation is slow.

Human resources with the right skills and co-ordination of energy efficiency policies are important elements of successful energy efficiency policy making. At the Directorate for Promoting and Financing Energy Efficiency, the hiring of additional staff is in progress. Additionally, to ensure a sustainable financing system for energy efficiency improvements, better policy co-ordination and alignment is required between the Ministry of Mining and Energy and the Ministry of Finance (European Commission, 2020[8]).

19.5. Set the right incentives for more energy efficient heating systems

Scope exists to reduce residential energy consumption by expanding district heating systems. Some 22% of occupied dwellings in Serbia are connected to one of 58 operational district heating systems, making this approach much more widespread than in other Western Balkan economies (Energy Community Secretariat, 2021[4]). However, 57% of dwellings are neither connected to district heating nor do they have central heating systems. Many of these dwellings rely on fuel wood and coal, which is often burned in inefficient devices (Đurić, Krstić and Jović, 2019[24]). The average annual energy consumption of Serbia's most efficient district heating systems is 110 kilowatt hours per square meter (kWh/m^2); in sharp contrast, average annual energy consumption for heating by households relying on fuel wood and coal combusted in inefficient devices is more than 350 kWh/m^2. Clearly, expanding district heating systems could lead to significant energy savings.

Decarbonising and modernising district heating systems in Serbia could enhance energy efficiency. District heating systems in Serbia rely mostly on natural gas for heat production (80%), combined with coal, petroleum products and a limited amount of biomass (20%). Other renewables make up only 1% of fuels used for district heating. While natural gas is much less polluting than coal, integrating renewable energies into the energy mix for district heating could cut pollution even more. Serbia could further reduce its emissions by phasing out the remaining coal-fired district heating plants and replacing them with plants that rely on renewables and natural gas. Overall, Serbia's district heating systems are inefficient and in need of modernisation. In fact, their utilisation rate is low due to poor design predicated on a small number of large units operating at a capacity that aims to deliver sufficient heat to all users – even on the coldest day (Poslovno udruženje toplane Srbije, 2020[30]). Serbia is already making progress in the modernisation and decarbonisation of district heating systems, by transforming four district heating systems from fuelling based on mazut and coal to biomass (woodchips). Two of the four district heating systems are operational, totalling 10 MW capacity of biomass heat production. Serbia is also performing analyses on the potential utilisation of solar energy in district heating. Furthermore, Serbia has already rehabilitated 23 district heating systems.

Consumption-based metering and billing for households connected to district heating systems would encourage energy savings. In many district heating systems in Serbia, electricity billing is not based on actual electricity consumption. This hampers energy efficiency improvements, since energy savings do not reduce consumer electricity bills (USAID, 2020[22]). Serbia has taken first steps to introduce consumption-based metering and billing in district heating systems, with 15 district heating companies adopting this approach (European Commission, 2020[8]). Serbia's Law on Efficient Use of Energy (LEUE) (from March 2013) defines criteria for metering district heating in new buildings and generally prescribes the installation of meters for measuring heat delivery at the building level. However, the law requires installation of metering equipment in individual apartments only if it is technically and economically feasible (USAID, 2020[22]). Serbia has not yet taken the necessary steps to implement consumption-based metering and billing in district heating systems on a large scale (European Commission, 2020[8]).

19.6. Develop an appropriate financing framework and secure funding for energy efficiency improvements

Serbia should develop strategies to secure more funding for energy efficiency improvements. The investment required for energy efficiency improvements in residential, public and commercial buildings in Serbia is estimated at EUR 4 541 million – 65.7% for residential, 27.2% for commercial and 7.1% for public buildings. Annually, this would result in energy savings of 887 ktoe and cost savings of EUR 548 million (due to lower energy consumption). To date, programmes and financial instruments for energy efficiency improvements and renovation have been sporadic – often relying on donor financing – and did not trigger a scale-up effect. The economic recession linked to the COVID-19 pandemic and the tightening of Serbia's budgetary resources are likely to further reduce financing available for energy efficiency improvements (United Nations Serbia, 2020[31]). At the time of writing, expected new financing for energy efficiency included loans from the World Bank and the EBRD, totalling USD 50 million and EUR 20 million, respectively.

Better access to financing for energy efficiency improvements in multi-apartment buildings could spur homeowner associations to take action. Some 27% of residential buildings in Serbia are multi-apartment buildings (Energy Community Secretariat, 2021[32]). Banks in Serbia perceive homeowner associations as highly risky borrowers because of insufficient collateral, the involvement of multiple individuals in decision-making, and the complexities of collecting regular income for repayment from members. Also, the legal status of such associations continues to be vague. The common property assets are not adequately registered to be considered for collateralisation. Even when made by majority vote, decisions are often difficult to enforce. Mandating additional fees for homeowners, on top of minimal building maintenance fees, could help finance energy efficiency improvements and provide homeowner associations with higher capacity for down payments, which would increase their creditworthiness. The government could also introduce credit guarantees for such associations. Energy service companies (ESCOs) could provide financing for energy efficiency improvements in multi-apartment buildings. The Law on Efficient Use of Energy introduces a definition for energy service contracts (including contract templates) between ESCOs and public sector entities (USAID, 2020[22]). ESCO projects in buildings, public lighting and district heating are already being implemented in Serbia (Energy Community Secretariat, 2021[5]). In a relevant example, Slovakia developed a successful funding strategy for renovation of and energy efficiency improvement in multi-apartment buildings, including state guarantees and co-financing mechanisms (USAID, 2020[22]).

Vulnerable households in Serbia require financial support to implement energy efficiency improvements. Vulnerable households face additional difficulties in financing energy efficiency improvements, since support schemes such as the one introduced by the Law on Energy Efficiency and Rational Use of Energy generally require significant co-financing by households. The financial resources **of vulnerable households tend to be limited, as is access to credit.[6]**

Scope exists to scale up the financial resources and the range of activities supported by Serbia's energy financing entities. The Directorate for Promoting and Financing Energy Efficiency (APFEE), which replaces the financing role of the former Budgetary Fund for Energy Efficiency, has been allocated a RSD 2 billion budget that includes subsidies to improve energy efficiency in public facilities, energy rehabilitation of residential buildings, family houses and apartments. Going forward, the APFEE's scope of activities and budget could be scaled up and stabilised by relying on revenues from a carbon tax or other environmental taxes. Municipal energy efficiency funds also exist in Serbia; the capital city, for example, created the City of Belgrade Budget Fund for Energy Efficiency, which invests in retrofits of both public and residential buildings.

19.7. Indicators to monitor the overall policy progress in Serbia

To monitor progress in implementing policies for a green recovery in Serbia, the OECD suggests a set of key indicators, including values for Serbia and benchmark countries (either the OECD or the EU average, based on data availability, and Croatia for the number of renewable self-consumers per 100 000 population) (Table 19.2).

Table 19.2. Indicators to monitor progress in implementing policies in Serbia

2019, unless otherwise specified

Indicator	2019	Benchmark value
CO2 emissions per capita (tonnes per capita)	**6.58	**7.64[a]
CO2 emissions per unit of GDP (kg/USD 2015 PPP)	**0.3756	**0.1867[a]
Mean exposure to PM 2.5 air pollution (µg/m^3)	25.50	13.90[a]
Years of life lost (YLL) per 100 000 inhabitants attributable to exposure to PM2.5 pollution	*****2 293	*****1 074[b]
Subsidies for coal (EUR/MWh)	1.92	N/A
Market share of largest generator in the electricity market (% of total electricity generation)	93.56	44.79[b]
Renewables (% of electricity generation)	29.92	34.94[b]
Solar and wind (% of electricity generation)	2.42	17.66[b]
Renewable self-consumers per 100 000 population	*0.00	**36.93[c]
Space heating using renewables and waste (fuel wood) (% of total)	***44.10	***27.00[b]
Transformation and distribution losses (% of primary energy consumption)	36.65	22.92[b]

Note: *2021, **2020, ***2018, ****2017, *****2016. [a]OECD, [b]EU, [c]Croatia.
Source: Eurostat (2021[11]), Eurostat (database), https://ec.europa.eu/eurostat/; IEA (2021[21]), Data and statistics, www.iea.org/data-and-statistics; EEA (2019[33]), Air quality in Europe — 2019 report, www.eea.europa.eu/publications/air-quality-in-europe-2019; Energy Community Secretariat (2021), www.energy-community.org/regionalinitiatives/WB6/Tracker.html; Miljevic (2020[9]), Investments into the past, https://energy-community.org/dam/jcr:482f1098-0853-422b-be93-2ba7cf222453/Miljevi%25C4%2587_Coal_Report_122020.pdf; Miljević, Mumović, Kopač (2019[10]), Analysis of Direct and Selected Indirect Subsidies to Coal Electricity Production in the Energy Community Contracting Parties, https://www.energy-community.org/dam/jcr:ae19ba53-5066-4705-a274-0be106486d73/Draft_Miljevic_Coal_subsidies_032019.pdf; Slok, M. (2021[34]), Incentives and challenges in promoting self-consumption - The case of Croatia, www.energy-community.org/; World Bank (2021[35]), World Development Indicators (database), https://databank.worldbank.org/source/world-development-indicators.

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Notes

[1] Information from fact-finding in Serbia from expert consultants from CENER21.

[2] This interconnector would give Serbia access to gas imports from different parts of Southeast Europe, including existing and planned LNG terminals in Greece and the Southern Gas Corridor (supplying Europe with gas from Azerbaijan).

[3] Information from fact-finding in Serbia from expert consultants from CENER21.

[4] Information from fact-finding in Serbia from expert consultants from CENER21.

[5] Information from fact-finding in Serbia from expert consultants from CENER21.

[6] Information from fact-finding in Serbia from expert consultants from CENER21.

OECD Development Pathways

Multi-dimensional Review of the Western Balkans

FROM ANALYSIS TO ACTION

The Western Balkans region has come a long way over the last two decades in achieving economic and social progress. Its people are the region's greatest asset. Yet faced with a lack of opportunities many, particularly the young, decide to emigrate. To make the most of its future the region must invest in its attractiveness as a place to live, work and invest in.

This report comes as a follow-up to the earlier publication *Multi-dimensional Review of the Western Balkans: Assessing Opportunities and Constraints*. It builds on an extensive peer-learning process that brought together experts from across the region and beyond. The report provides suggestions and recommendations for three strategic priorities that can help create opportunities and boost the quality of life. First, better education and more competencies are the basis for raising productivity, creating jobs, encouraging civic participation and making the region an attractive destination. Second, social cohesion is the bedrock of resilient societies and requires stronger labour market policies and effective social protection that can cushion people's hardship and provide them with new opportunities. Third, cleaner air and more sustainable energy are indispensable for boosting the region's quality of life and economic opportunities.

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