

## RESEARCH PAPERS

# Social Infrastructure in the Western Balkans

Increasing the region's economic resilience, enhancing human capital and counteracting the effects of brain drain



NOVEMBER 2021

**Social Infrastructure in the Western Balkans**

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## ACRONYMS AND ABBREVIATIONS LIST

BEEPS	Business Environment and Enterprise Performance Study
BiEPAG	The Balkans in Europe Policy Advisory Group
COVID-19	Coronavirus disease of 2019
EU	European Union
EUROSTAT	European Statistical Office
GDP	Gross domestic product
GFC	Global financial crisis
GFCF	Gross fixed capital formation
ICT	Information and communications technology
ILO	International Labour Organisation
IMF	International Monetary Fund
LGBTI	Lesbian, gay, bisexual, transgender and intersex
NCD	Non-communicable diseases
NEET	Not in education, employment or training
OECD	Organisation for Economic Co-operation and Development
PISA	Programme for International Student Assessment
PPP	Purchasing power parity
TFP	Total factor productivity
UNESCO	The United Nations Educational, Scientific and Cultural Organization
VET	Vocational education and training
WHO	World Health Organisation
wiiw	Vienna Institute for International Economic Studies

## COUNTRY CODES USED IN THE REPORT

ALB	Albania
AUT	Austria
BIH	Bosnia and Herzegovina
DEU	Germany
KSV	Kosovo*
MNE	Montenegro
MKD	North Macedonia
SRB	Serbia
WB (or WB6)	Western Balkan six countries

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

## INTRODUCTION

**The countries of the Western Balkan<sup>1</sup> region have made considerable strides in improving their citizens' economic and social prospects. Yet the region still faces challenges with institutional quality, weak social infrastructure<sup>2</sup>, and outward migration.** Over the last two decades, most of the region's countries have seen notable jumps in national incomes. They have kept a steady pace of regulatory and governance reforms that underpin their long-term ambitions to join the European Union (EU). In turn, this has improved their citizens' standard of living and well-being and has made the region increasingly more transparent and secure. Despite these noteworthy gains, most countries continue to lag behind EU standards both economically and socially, and this may now be exacerbated by the economic slowdown stemming from the Covid-19 crisis. Moreover, to varying degrees, the region's countries still face challenges related to institutional/political uncertainties, public sector inefficiencies, labour market and business rigidities, considerable socio-economic inequalities, and shortfalls in social infrastructure public investment. These issues limit the potential for the region to achieve higher economic growth and foster conditions that motivate a large number of people to migrate abroad - creating a brain drain of highly educated and skilled professionals.

**This report will explore the capacity of social infrastructure (education, health, and housing) to develop the human capital and societal foundations necessary for long-term economic growth in the region's countries, and the role it can play in counteracting the effects of brain drain that reduces the region's human capital foundations.** Broadly defined, when human capital levels in a country are high, it reflects a citizenry that is both educated and healthy, and possesses the necessary foundations to contribute to economic and societal growth. Strengthening the region's social infrastructure is an important ingredient on this front and provides the necessary knowledge/skills, health outcomes and living conditions that help support and develop a strong and resilient human capital base. Moreover, enhancing the overall human capital stock will play an important role in safeguarding the resilience of the region's economies in the face of the loss of the human capital of those moving abroad (brain drain). However, in the Western Balkans, social infrastructure systems are not yet fully equipped to achieve these objectives. The existing social infrastructure is not adequately supportive of the human capital potential and development of those staying behind, thus threatening the human capital competitiveness of the region's countries. Moreover, sub-optimal social infrastructure is increasingly becoming an additional factor – among economic and governance issues – that leads people to emigrate. As this report will show, strengthening social infrastructure may support the region's human capital development, which will be an important and necessary component for creating a more innovative climate, helping businesses move up value added chains, and achieving durable long-term economic growth and socio-economic progress – and perhaps in the near future motivating more people to remain and even return to the region.

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<sup>1</sup> The Western Balkans region comprises (in alphabetical order): Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.

<sup>2</sup> This report defines social infrastructure to include all assets - physical, equipment, and personnel - that contribute to a well-functioning social sector.

**This report is organised into five chapters that explore the economic setting, emigration causes and consequences, and social infrastructure conditions in the Western Balkans.**

- **Chapter 1 – The Western Balkan Economic Environment** offers a brief overview of the macroeconomic situation in the region, labour market conditions and labour productivity trends, and the fiscal position of governments.
- **Chapter 2 – Emigration from the Western Balkans** examines emigration from the region and what motivates people to move abroad (a mix of concerns with economic conditions, governance, and quality of social infrastructure). The chapter explains the consequences of emigration in general, and especially on the region's human capital through the brain drain of highly educated and skilled individuals
- **Chapter 3 – Obstacles in Education** examines the current education systems (from early childhood to vocational education and training, VET) in Western Balkan countries, which often face issues with funding, material availability, and skilled staff shortages. In turn, this hampers the system's ability to ensure students of all ages are able to acquire the best education outcomes and develop the skills necessary for a fast-evolving and technologically oriented global economy. These shortcomings potentially negatively affect the region, as the pool of skilled labour diminishes as people move abroad and education systems fail to make up the loss by shoring up the skills of those left behind.
- **Chapter 4 – Challenges in Healthcare** diagnoses how current health systems in the region often experience financing and resource deficiencies that result in the system's inability to offer quality care to citizens and create high rates of individual health out-of-pocket expenditure. The already stretched health sector is also experiencing a significant outflow of medical professionals abroad and severe shortfalls in primary and preventative care. The poor health outcomes of many acts as a burden on the region's economic activity as people prematurely drop out of the labour market and deteriorate individual and societal well-being. For those choosing to emigrate from the region, destination countries become more attractive with their more robust health systems, which enhance health outcomes and thus sustain people's economic capabilities and well-being.
- **Chapter 5 – The Cost and Quality of Housing** highlights how housing has become an increasingly pressing problem that underscores the wider socio-economic issues contributing to emigration. Most people encounter difficulties meeting the cost of maintaining existing homes, straining already stretched household budgets. An inadequate supply and rising prices of homes make it difficult to access the housing market (especially for vulnerable groups and the young); concurrently, there is a limited supply of social housing. Moreover, low quality, poorly insulated and overcrowded housing worsens human capital development and health outcomes for many.

The report offers a concluding remark that underscores the need for more targeted policy attention to social infrastructure and investments – which has historically been low in most Western Balkan countries - to safeguard the region's human capital competitiveness. Moreover, if the EU's investment agenda in the region (which has placed increased attention on developing human capital and mitigating emigration) is enacted, then this will provide the much-needed support for the region's governments to improve their existing social infrastructure systems. Doing so will help the Western Balkan countries in their efforts to strengthen their human capital competitiveness and economic resilience, and help realise their ambition to achieve sustainable economic growth and socio-economic development.

## CHAPTER 1 – THE WESTERN BALKAN ECONOMIC ENVIRONMENT

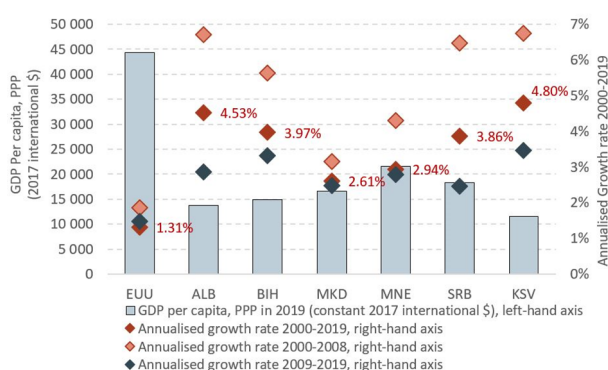
### *A brief overview*

The Western Balkan region has made considerable, albeit uneven, gains towards economic convergence with the European Union, yet most countries continue to lag behind in relative terms and are struggling to transition to higher value added growth that can offer improved opportunities for its citizens. The region continues to fall behind in many economic indicators relative to the European Union, from low overall gross domestic product (GDP) per capita levels (adjusted for purchasing power parity, PPP) to high unemployment rates (especially among the youth and women). The continuing and unfolding Covid pandemic has slowed positive economic and socio-economic trends. The consequences of slowed economic progress in many of the region's countries have resulted in the narrowing of economic opportunities for many, and consequently, the region's economic situation is one of many reasons contributing to outward migration (more details outlined in the next chapter). If the region is to create sustained economic growth and better employment prospects, countries will need to continue efforts to transition towards higher productivity and advanced economic activities. This will require strengthening the human capital base and continuing efforts towards improving the institutional/governance and investment climate.

### The region's economy: slowly converging to the EU but still lagging behind

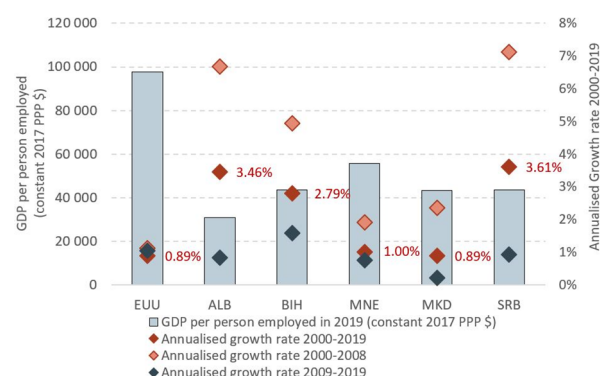
While the region's countries have shown steady but varied progress towards economic convergence with the European Union, relative income levels remain lower. Between 2000 and 2019, a number of Western Balkan states had some of the highest annual real GDP per capita growth rates in continental Europe (see Figure 1), often outpacing the growth rates of many EU member states. These GDP convergence trends have been evident for some time (Dabrowski & Myanchenkova, 2018; Siljak & Nagy, 2019; World Bank, 2017a), and are expected to continue given the overall lower GDP positions of most Western Balkan states. Since the global financial crisis (GFC) of 2007-2008, despite remaining above EU growth rates, the countries' GDP growth rates have markedly slowed down – partially due to lacklustre growth in the EU, the Western Balkan's primary trade and investment partner. Despite strong GDP growth, all Western Balkan states have real GDP per capita levels still far below the EU average (as shown in Figure 2), ranging from the lowest level, in Albania, (at 11,486 USD\$ PPP-adjusted per person or 26% of the EU-average) to the highest, Montenegro, (at 21,533 USD\$ PPP-adjusted per person, or 49% of the EU-average). GDP per capita in the Western Balkans, is on average, roughly three times lower than in the EU.

**Figure 1 - Real GDP per capita and annualised growth rates**



Source - World Bank, CEB staff calculations

**Figure 2 - Real labour productivity and annualised growth rates**



Source - ILO, CEB staff calculations

\* Kosovo data unavailable

**The economic growth seen by most Western Balkan states until 2009 contributed to a reduction in poverty rates, slight reductions in unemployment, and an overall increase in standards of living;** the improvements in many of these socio-economic indicators began to stall after the GFC (the recent COVID crisis may reverse trends negatively, see Info Box 1 below) as economic growth began to slow down. Sustaining long-term and higher rates of convergence will be necessary to improve the socio-economic conditions of Western Balkan citizens. However, the rate of economic convergence with the EU remains a challenge for the region.

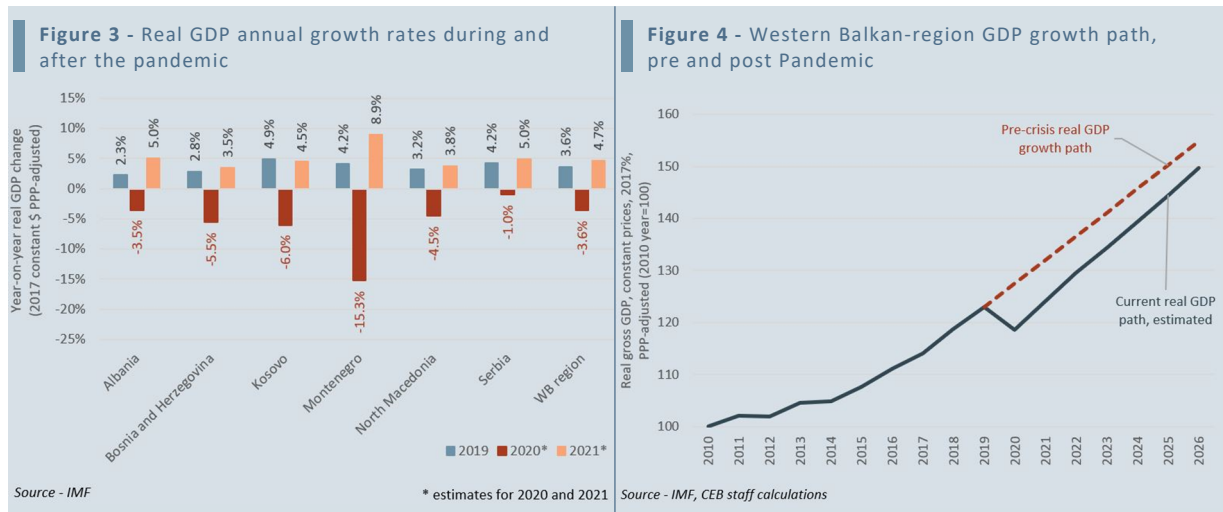
**Labour productivity can help better understand a country's potential to achieve higher economic growth, as well as its capacity to provide high-quality jobs that can improve overall living standards** (Naveed & Ahmad, 2016). As shown in Figure 2 (see above), gross labour productivity in Western Balkan states is well below the EU average, and growth rates are uneven between countries. Between 2000 and 2019, labour productivity growth rates in most Western Balkan countries were higher than the EU average rate, with the exception of Montenegro and North Macedonia which maintained growth rates close to the EU average. After 2008, labour productivity growth rates dropped across all countries due to the economic crisis and individual country macroeconomic conditions. Improving labour productivity growth will be imperative for the region's countries to avoid sliding into a low-productivity growth model. Achieving this will be no easy task; in part, it will require investing in the foundations necessary to help develop a stronger human capital base (such as education and health) and the conditions to retain high-educated and skilled workers.

**Moreover, in order for the region to shift towards a new economic growth model, most countries will need to enact further important structural reforms to increase their resilience and competitiveness.** This includes capital deepening, increasing private sector investment, lessening reliance on domestic consumption-led growth, continuing to strengthen the tradable sector, pursuing labour market reforms, and improving the efficiency of the public sector (World Bank, 2017; 2019; 2020) - many topics that fall beyond the scope of this paper.

### **Info Box 1 - The economic impact of Covid-19 on the Western Balkans**

Of course, the Covid-19 pandemic has negatively affected the economies of all Western Balkan countries. In 2020, the region fell into a recession, with real GDP contracting by -3.6%; with differing magnitudes across countries: Serbia per capita GDP is estimated to have contracted by -1%, while smaller Montenegro by a pronounced -15.3% (see Figure 3 below). The recessionary drop in GDP is the result of several factors, including substantial deteriorations in domestic and foreign demand for goods and services, a collapse of tourism in the region (due to lock-down measures in the region and abroad), a potential reduction in remittance inflows to some households, and a dent in private domestic and foreign direct investment levels.

The economic outlook in the near future remains uncertain and will likely vary by country due to different responses to new variants of the virus and vaccine roll-out strategies. What is clear is that economic growth paths in the region are likely to remain below pre-crisis levels (see Figure 4 below), resulting in a significant loss of ground in the region's economic convergence efforts with the rest of Europe. Furthermore, the full socio-economic impact of the crisis continues to unfold. The unemployment rate has slightly deteriorated in some countries, while poverty levels have begun to increase, and potential spikes in inequality may emerge. Government fiscal support programmes have helped prevent even deeper recessions and softened the socio-economic impact of the pandemic (although not all countries were able to provide the same level of support); fiscal policy responses to the crisis contributed to public deficits reaching historic levels, limiting the future fiscal space of the region's governments (World Bank, 2021).



## Labour markets: struggling to provide quality jobs for many

**The labour market environment in the Western Balkans has been gradually improving during the last decade.** In 2012, nearly one in four of those in the labour market were unemployed; by the end of 2019, that figure was closer to one in eight (see Figure 5 below). However, unemployment rates were still considerably higher in all countries relative to the EU-27 average (6.7% in 2019). In most Western Balkan countries, female unemployment levels were slightly above overall unemployment national rates (see Appendix Figure 1). According to International Labour Organisation (ILO) data, female labour force participation rates are lower than for men (see Appendix Figure 10). Moreover, long-term unemployment rates in 2019 were considerably lower than peaks observed around 2012 and 2014, but remain high and are a persistent problem in a number of Western Balkan countries (see Appendix Figure 2), despite improving employment and self-employment figures (World Bank and wiiw, 2020).

**A widespread concern throughout the region is the high number of young people (aged 15 to 24) who are not in education, employment or training (NEET).** In the Western Balkans, 19% of youth were considered to be NEET in 2019; while this is lower than the 24% rate the region hovered around between 2012 and 2015, it stills remains nearly double the EU rate of 10% in 2019, with large variations within the Western Balkans (see Figure 6). For instance, in Kosovo, the youth NEET rate is nearly 33%, while it is slightly below 16% in Serbia. The high NEET rates in the Western Balkans may have significant negative life-long impacts on the youth, such as the inability to secure a permanent job, stunted career and skills development, delay in starting a family, and overall declines in wellbeing and sense of social inclusion (OECD, 2016a; Carcillo, Fernández, Königs, & Minea, 2015). It may be for this reason that nearly 71% of young people in 2020 reported that they were thinking of emigrating to work abroad (RCC, 2020).

**Figure 5 - Overall unemployment rates relative to the EU**



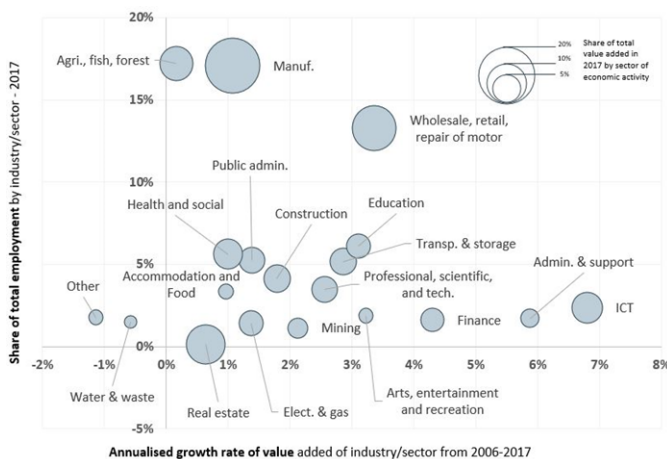
**Figure 6 - Youth not in education, employment or training (NEETs) relative to the EU**





**Economic activity in Western Balkan countries is concentrated in a handful of labour intensive and low value added sectors that are at a high risk of automation.** For instance, according to ILO data, in 2019, 19% of the region's labour force was employed in agricultural/fishery activities, 16% in the manufacturing sector, and 14% in the retail sector. These three sectors alone accounted for roughly 50% of all employment in the region. However, in some countries, these sectors may have lower labour productivity or value added growth potential. Taking Serbia as an example, in 2017<sup>3</sup>, the agricultural and manufacturing sectors each had a 17% share of employed persons (34% collectively), but their respective annualised real value added growth rates between 2006 and 2017 were 0.16% and 1.07% (see Figure 7). On the other hand, sectors with higher annualised real value added growth rates between 2006 and 2017, such as ICT (+6.8%), administrative support services (+5.9%), financial services (+4.3%), had a considerably smaller total employment share in 2017: 2.4% (ICT), 1.7% (admin), and 1.6% (financial). The high concentration of jobs in sectors such as agriculture, manufacturing and retail, is troubling given that these sectors have a higher probability of having tasks automated with technological developments (more detail in Chapter 3), thus increasing the risk of job insecurity for many and threatening livelihoods.

**Figure 7 - Value added growth and employment share by sector, Serbia**



Source - CEB Staff calculations, ILO, United Nations Statistics Division

**Labour markets face broader challenges related to regulations, labour tax burdens, work-transition policies, and informality, potentially exacerbating structural unemployment.** While many of the region's countries have been working to reform labour laws to improve labour market flexibility and employment promotion services, implementing agencies often lack adequate funding and staff, resulting in uneven enforcement of labour laws between and within countries. In some countries, such as Bosnia and Herzegovina, and Montenegro, policy actions and reforms are working to address complex regulatory environments, while Serbia is increasing tax and labour

compliance inspections (European Commission, 2021a; European Commission, 2021b; European Commission, 2021c). Additionally, high labour-related taxes result in a high labour tax wedge<sup>4</sup> that disincentivises employers and employees from operating in the formal labour market (Arandarenko & Aleksic, 2019). Moreover, in all countries, active labour market policies (ALMPs) are insufficiently funded or not fully developed and, as a result, are limited in their ability to help unemployed or inactive individuals obtain long-term employment, or to help individuals transition away from the informal labour markets (European Commission, 2021d). Young people and women, in particular, continue to face challenges to enter the labour market, and labour market transition policies that aim to help them are incomplete or delayed in implementation<sup>5</sup>. In general, countries face skills shortages in the labour market, but vocational and educational (VET) training programmes are often unable to match training to the skills needed by the labour market.

<sup>3</sup> The data analysed in this section focused on 2017 for Serbia, because value added data, at time of publication, was only available up to this date.

<sup>4</sup> Notably, Serbia is increasing the tax-exempt threshold of salaries in an effort to decrease its labour tax wedge to combat informal labour. Montenegro has introduced a subsidy programme which will exempt employers from worker income taxes and pension/disability insurance; the exemption thresholds decrease until 2023.

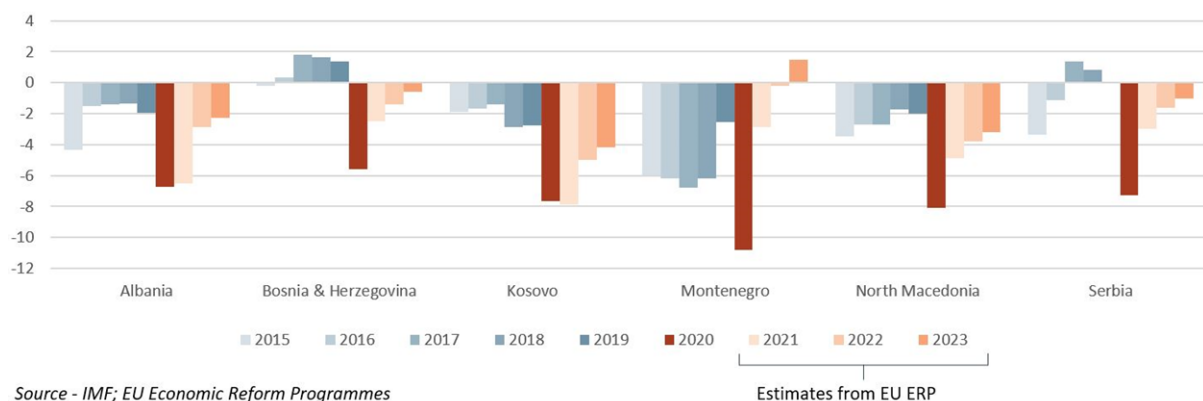
<sup>5</sup> Although encouraging signs can be found in Albania with the creation of pilot projects via the Youth Guarantee Programme, or Kosovo's aim to improve child and elderly care (to help promote female labour participation).



## Fiscal positions: constrained public finances

**Constrained fiscal positions of governments in the region limit the scope of long-term economic growth-enhancing investments.** Governments face issues with tax collection institutional capacity and a narrow tax base<sup>6</sup> - as a large share of the workforce is unemployed or active in the informal sector. In comparison with the EU, there is an overreliance on revenue from taxes on goods and services. The region's countries could benefit from a more balanced and more progressive tax revenue structure to enhance fiscal sustainability. The Covid-19 pandemic limited the fiscal space further for all the regions' governments as public debt levels increased following governments' implementation of emergency support packages to ensure effective financing support for health sectors, businesses, social protection and employment measures. The resulting increase in public expenditure, combined with the decline in tax revenues seen in some countries, has resulted in a considerable increase in budget deficits (see Figure 8 below). In a number of countries, this sharp fiscal downturn comes after years of strong economic growth and public-sector efforts to repair public balance sheets. Based on the European Commission's assessments of the region's countries economic reform programmes, public deficit levels are forecasted to gradually improve in the coming years with the phasing out of public support programmes and strong assumptions of a robust return to economic growth and tax revenues. Most governments plan to undertake some form of consolidation programme which will see cuts in current public expenditure, capital expenditure<sup>7</sup> and investments (primarily Bosnia and Herzegovina<sup>8</sup>) and subsidies and transfers (European Commission, 2021d). The crisis has also increased the gross public debt to GDP ratio (see Appendix Figure 3) in all countries with differing implications on the debt dynamics<sup>9</sup>, but will be aided in most countries under the assumption of overall higher nominal GDP growth and primary balance improvements. Future investments in the region may be aided by the EU's Instrument for Pre-Accession Assistance (IPA-III), which aims to offer funding support in crucial capital investments in infrastructure, energy, transport, and potentially more social projects.

**Figure 8 - Fiscal balance, % of GDP of Western Balkan countries**



<sup>6</sup> Some countries such as Kosovo and Montenegro hope improvements in tax collection systems will strengthen tax revenues.

<sup>7</sup> North Macedonia, Serbia, and Kosovo are estimated to see increased capital expenditure until 2023. In Montenegro, capital expenditure is estimated to drop as a result of the completion of the first phase of the Bar-Boljare motorway construction project.

<sup>8</sup> Cuts in public investment may threaten the medium-term strategies that aimed to boost economic growth and competitiveness.

<sup>9</sup> For full details, see the EU's Economic Reform Programme documents.

## **Info Box 2 – European investment support in the region**

The countries in the Western Balkans are able to benefit from EU instruments, and international and multilateral financial institution and bilateral donor support channels that can bolster long-term economic, social, and governance development agendas. All of the region's countries are thus included in the EU's enlargement and neighbourhood policies, as they are either EU candidate countries (Albania, North Macedonia, Montenegro and Serbia) or potential candidates (Bosnia and Herzegovina and Kosovo). The EU works within the region to promote peace, stability and economic development in order to improve the countries' prospects of EU integration. The EU is the most prominent actor providing funding support in the region, for instance, via the Instrument for Pre-Accession Assistance (IPA), which has primarily worked to help countries develop their policy reform agendas and economic competitiveness strategies, linked to the EU's enlargement strategy. There have thus far been two rounds of IPA funding; IPA (2007-2013) and IPA II (2014-2020). A third round, IPA III, will be implemented between 2021-2027 and will allocate a total of €14.2 billion over the timeframe. Directly complementing the EU's efforts, the Western Balkan Investment Framework (WBIF) works to coordinate and channel the investments and technical support programmes of international financial institutions (IFIs, such as the CEB) and bilateral donors to projects that support the socio-economic development of the region and aid countries in the EU-accession process.

## CHAPTER 2 – EMIGRATION FROM THE WESTERN BALKANS

### *A brain drain diminishing the region's human capital*

**Emigration from the Western Balkans has been a longstanding problem caused by economic, social, and institutional issues, threatening the development prospects of all countries in the region.** Emigration is likely to continue in most of the region's countries for the foreseeable future. The reasons people choose to leave are various, but often fundamentally centre on the difficulties of achieving a high quality of life for themselves and their families if they remain in the region. Historically this has been argued from an economic perspective (limited jobs and low wages), but increasingly a broader picture is emerging in which poor public institutional quality, political uncertainty, and the sub-adequate state of critical social infrastructure (education, health, and housing) are undermining peoples' capacities to build a quality life for themselves and to contribute to the economic and social development of their societies. These emigration trends have resulted in a net loss to the region's population, including highly educated and skilled professionals (a brain drain), which reduces the region's human capital base.

**A brain drain is reducing the regions' human capital that is necessary for economic growth while existing social infrastructure is failing to improve the human capital of those who remain behind.** Brain drain is defined by the European Union "as a region's loss of individuals with high skills and/or competencies (workers/students) due to permanent emigration". For the purposes of this report, these "workers with high competencies" includes both people that are highly educated and those with key vocational skills important for economic development (such as skilled craftspeople and technical workers, etc.). In turn, this is one factor hampering the region's economic competitiveness, ability to increase labour productivity, and capacity for innovation and technological progress, all of which are crucial components for the region's economies to transition to higher value added sectors and speed up convergence growth paths with the European Union (EU). In addition, as later chapters will show, existing social infrastructure is insufficient to better develop the human capital of those that stay in the region, which is needed to make up for the loss of the many high-skilled individuals that choose to go abroad (such as better education, higher quality healthcare, and better housing and living conditions). As a result, the region's human capital stock may further deteriorate, thus reducing knowledge absorption capacity that will limit the potential to fully benefit from capital investment and productivity-enhancing technologies. Unless tackled head on, this will likely stall further economic gains and reinforce the deep economic and social shortfalls that already motivate many to move abroad.

### Emigration from the region: by the numbers

**The outflow of people remains a central concern for most Western Balkan countries, as it impacts the economic, social, and political prospects of a region still economically lagging behind the EU.** The total number of people who have left the region is difficult to accurately capture (see Info Box 1); the World Bank estimates that between 1990-2015, nearly 4.4 million people left the region (this includes the turbulent war years when scores of people tried to leave to escape violent conflict). Data since the early 2000s shows that people are continuing to leave the region. Between 2012 and 2018<sup>10</sup>, on average, annually, 155 thousand people left the region for an OECD country<sup>11</sup>; in 2018 alone, that number stood at 175 thousand people.

<sup>10</sup> The latest date when migration data was most widely available for all Western Balkan countries.

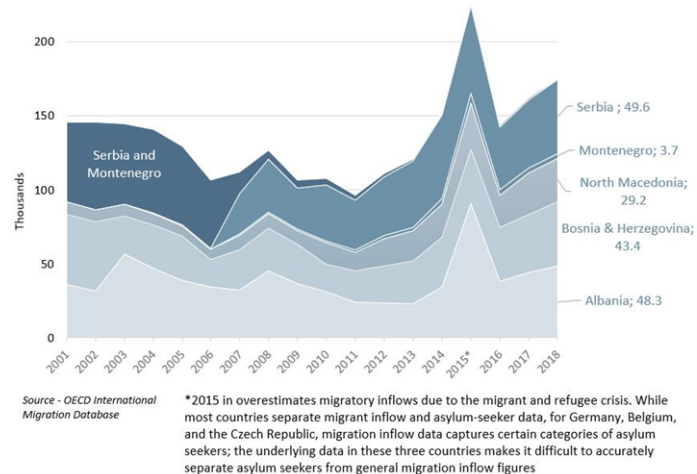
<sup>11</sup> We utilise the OECD International Migration Database due to the reliability and frequency of the data; however, this may result in a degree of under-estimation of total outflow figures, as non-OECD destination countries are not incorporated into the dataset (see Info Box 1).

When examining net migration, between 2015 and 2020, net emigration from the region to the rest of the world stood at an estimated 135,000 (United Nations, 2019). While some migrants may return to the region, most migrants stay abroad, indicating that migration is far from being “circular”.

**In recent years these outflows have exhibited signs of being somewhat pro-cyclical in nature.**

For instance, as can be seen in Figure 9, for several years after the 2008 financial crisis, several Western Balkan countries saw migratory outflow numbers decline, as economic opportunities abroad declined; the trends reversed back to growth after 2012 when economic recoveries around the world began to take hold (especially in the European Union, the primary destination region for most migrants). Between 2008 and 2018, the annualised growth rate of emigration from the Western Balkan region to OECD countries was 3.3%; but between 2012 and 2018 (when EU economies recovered), the annualised emigration rate was nearly 8%. While the current Covid-19 pandemic may reduce, and even temporarily reverse, these outflows (see Info Box 3), it remains evident that long-term emigration trends point to a continued outflow.

**Figure 9 - Annual emigration flows from the Western Balkans into OECD countries**



**The composition of the type of migrants and where they move to has common characteristics in the region.** The majority of emigrants are either young individuals or individuals in the middle of their working lives; recent research has shown that, while many are tertiary educated<sup>12</sup>, a dominant and large share of migrants are skilled and low-skilled persons with non-tertiary education – such as secondary or vocational education and training (Leitner, 2021). Moreover, destination countries tend to be concentrated in relatively higher-income economies such as Germany (49%), Italy (12.1%), Slovenia (9.4%), Austria (7.4%) and the United States (4.8%), with the EU accounting for roughly 90%<sup>13</sup> of the total emigration outflow in 2018.

### Info Box 3 – Migration data accuracy

The accuracy of the migratory figures of the Western Balkan region is plagued by various issues that limit the scope for comprehensive cross-country comparisons. International statistics that collect migratory figures often have breaks in the time series for many Western Balkan countries. The data is often collected based on receiving country inflow registries at the border, undertaken by the responsible ministries, with individual country differences in the definitions of what constitutes a migrant inflow (e.g. length of stay). Moreover, many migrants are seasonal workers who sometimes complicate the recording of accurate information. On top of these obstacles, a sizeable proportion of people in the Western Balkan countries hold multiple citizenships, thus potentially masking the true number of people leaving the region. Due to these limitations, this report’s analysis uses the OECD International Migration Database. It is one of the most comprehensive and accurate registries of international migration data; thus, a limitation of this paper’s analysis is that it can only examine migrant flows to OECD countries.

<sup>12</sup> Serbia is a recent exception, having seen a net migration of tertiary educated individuals (Leitner, 2021), but this data may also be affected by intra-regional (Western Balkan) migration flows.

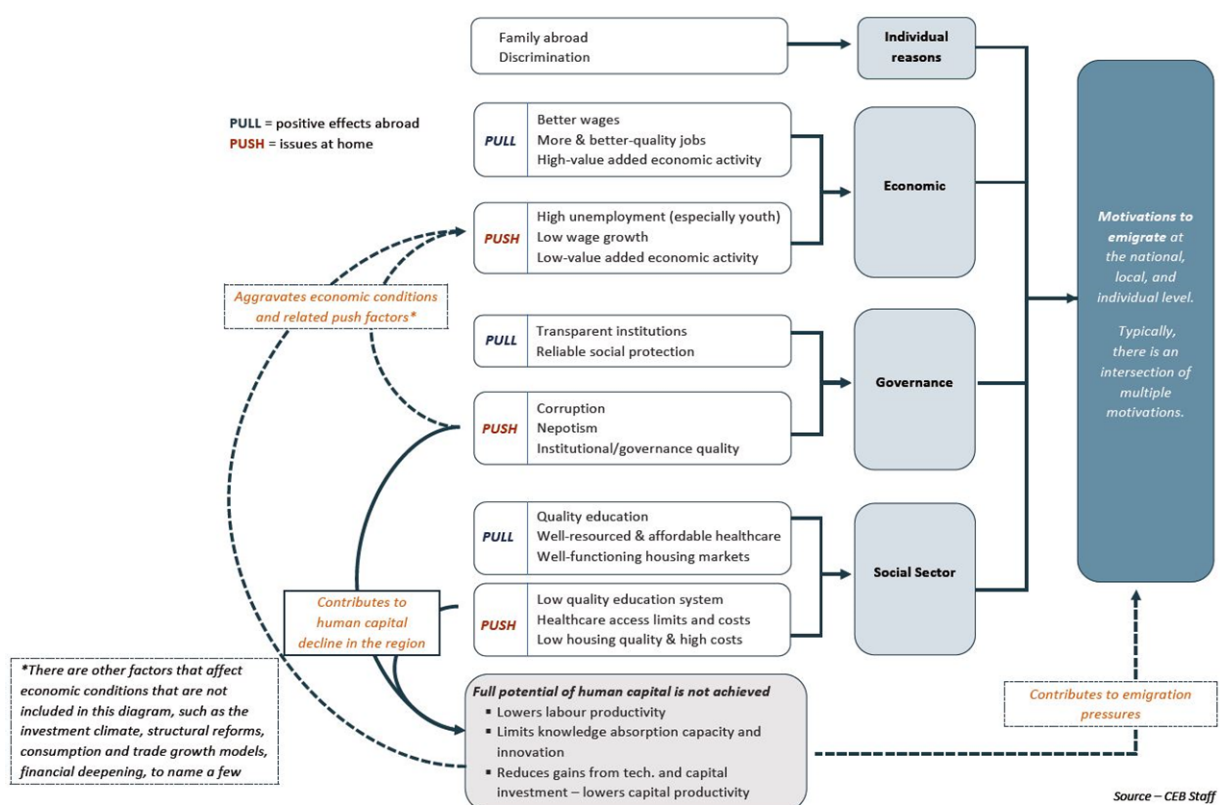
<sup>13</sup> In part, this figure exhibits a statistical limitation, as immigration data beyond OECD countries is scarce. However, the EU has also eased visa protocols with pre-accession countries in the Western Balkans, making the EU single market a relatively easier destination for migrants.

## The causes of emigration: beyond economics

The decision to move abroad can vary greatly between individuals' unique circumstances and can encompass a range of factors. In the Western Balkans, the discourse concerning emigration has historically concentrated on a variety of push (issues at home) and pull factors (positive attraction abroad), often with considerable attention on the broader economic benefits and costs of emigration. However, while the economic reasons may offer an immediate rationale for Western Balkan emigration, they are complemented by broader problems concerning people's dissatisfaction with socio-economic conditions, public policies, and domestic governance and institutions (see Diagram 1).

In addition to better economic prospects abroad, studies have also highlighted the important role that quality and trustworthy public institutions play in motivating emigration. An IMF analysis (2016) showed that, while all types of migrants seek better economic opportunities abroad, higher-skilled individuals were also motivated to move due to institutional quality at home (corruption and nepotism to obtain employment), and lower-skilled individuals were also drawn to the larger and more reliable social benefit systems abroad (for instance, social benefits in the Western Balkans can be spotty in coverage and benefit transfers can be delayed). Further evidence has shown that the high level of corruption in the region is a key determinant of migrant outflows (Malaj & de Rubertis, 2016), which is accentuated by the fact that 63% of individuals in the region do not trust their governments, and 66% do not trust the judiciary or legislative branches (Balkan Barometer, 2020).

Diagram 1 - Motivations and consequences of emigration



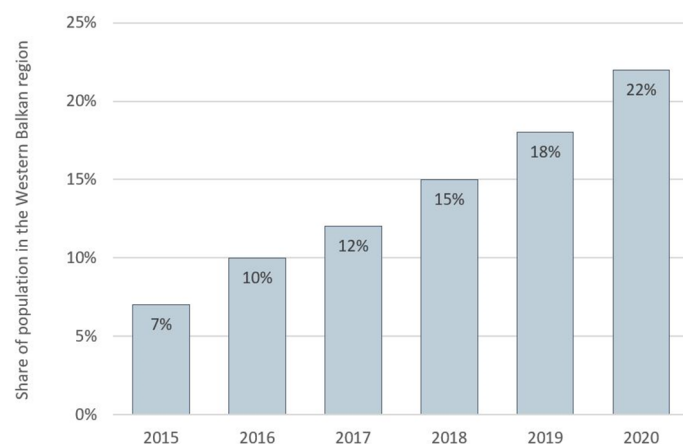
Emigration also stems from a desire for people to improve the quality of life for themselves and their families and can encompass important considerations such as the affordability and availability of housing, the quality of education and healthcare systems, cost of living, and the abundance of quality infrastructure and amenities to enhance social life (CoR, 2018). When considering some of these factors, it appears that people in the Western Balkans are motivated by similar factors in that they are not offered the necessary foundations or best conditions to achieve a high quality of life. For instance, according to the Balkan barometer, in 2020, 66% of people were displeased with the cost of living (level of prices) they faced,

and 35% were dissatisfied with the availability and affordability of housing. Furthermore, many people expressed dissatisfaction with key social services such as the health systems (where 43% were dissatisfied to some degree) and the education systems (29% dissatisfaction).

**Young people in the region have a strong desire to move abroad to attain better opportunities, contributing to a highly skewed proportion of young people in total emigration numbers.** For example, in Bosnia and Herzegovina, North Macedonia, and Albania, over 50% of young people desire to live and work abroad for more than 20 years, signalling a potentially significant long-term loss to the demographic and economic future of the region (Lavric, Tomanovic, & Jusic, 2018). The high level of youth migration from the Western Balkans stems, in particular, from young people's inability to access quality education (and the limited economic opportunities once a degree is obtained), compelling many to seek education opportunities abroad (Barjaba, 2015). In 2018, 5.6% of university age students in the region undertook their studies in a foreign country (the EU-28 average is 3%)<sup>14</sup>.

**There is an underlying concern that governments in the region are not dedicating sufficient attention and resources to tackling some of the region's underlying quality of life issues, primarily investment in social infrastructure such as education and healthcare.** In 2020, roughly 22% of the population believed that social infrastructure should be an investment priority of public authorities, up from just 7% in 2015 – see Figure 10. In most Western Balkan countries, investments in key social infrastructure sectors (such as education and health) are below EU averages, and existing spending is considered insufficient to meet medium and long-term investment needs. Moreover, the EU's Economic and investment Plan for the Western Balkans has underscored the importance of increasing investment attention to the region's social infrastructure in order to develop human capital, strengthen the region's economies and mitigate brain drain and its effects. The historic underinvestment in the social sector may generate negative long-term economic impacts for the region's countries. Firstly, inadequacies in social infrastructure limit the capacity to strengthen and develop the human capital in the region and, in turn, economic growth and new opportunities. Secondly, people become frustrated by the low quality of social infrastructure as it limits the development of their human capital and quality of life, thus adding another factor that motivates people to move.

**Figure 10** - Share of population that thinks social infrastructure should be an investment priority for government resources



Source - Balkan Barometer

## The consequences of emigration: a region being hollowed out

**The continuous outflow of people from the Western Balkans is diminishing the region's human capital, which is one of several key components needed for the transition to higher value added economic activity.** In turn, this will limit the region's economic competitiveness, labour productivity, capacity to innovate and technologically progress, and ability to sustain economic growth and economic convergence with its EU neighbours. A reality that must be considered is that emigration numbers are not expected to stop any time soon; 43% of people in the region report they are considering working abroad (see Figure 11). The numbers will likely only increase when the region's countries acquire EU membership. Studies have shown that during previous EU membership enlargement rounds, new member states<sup>15</sup> experienced increases in emigration

<sup>14</sup> CEB Staff calculations using UNESCO tertiary education migration population data. For the Western Balkan region calculation, data was unavailable for Bosnia and Herzegovina and for Kosovo.

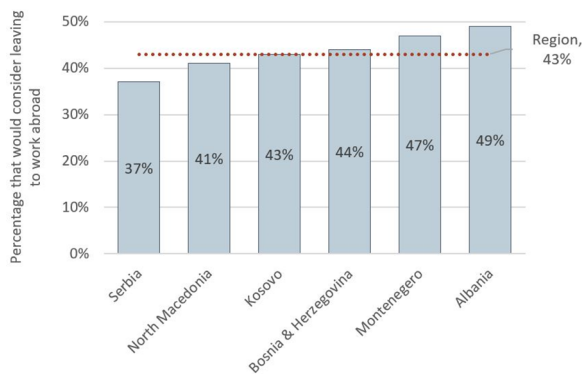
<sup>15</sup> Those countries that joined the EU during the following enlargement waves: in 2004 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia), in 2007 (Bulgaria, Romania), and 2013 (Croatia).



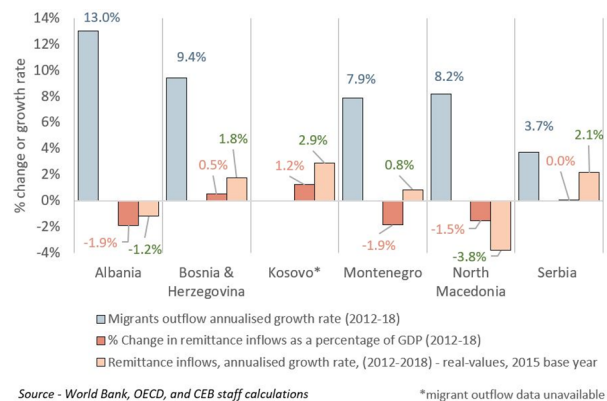
numbers (IMF, 2016; Kahanec & Zimmerman, 2008). Citizens of Western Balkan countries already have more favourable options regarding access to the EU, either through liberalised travel visa regimes (tourism) or EU country-specific work visa programmes (Commission, 2020). Given the likely uninterrupted migration outflow, it is important to understand its consequences to help governments clarify policies to strengthen their economies despite the outflows.

**An immediate economic effect of emigration is remittance inflow, but its impact on the region's prospects is mixed.** Remittances have a welfare-enhancing effect as they provide income support that can help increase household consumption, improve wellbeing, combat poverty rates, and help with financial deepening (Meyer & Shera, 2016; León-Ledesma & Piracha, 2004; Jushi, Hysa, Cela, Panait, & Voica, 2021; Topxhiu & Krasniqi, 2017; de Sousa, Duval, Wolff, Bleahu, & Calmuc, 2009). The size of remittances varies between countries; in Kosovo, it was nearly 16% of GDP as of 2019, while in North Macedonia, it was just 2.5% (see Appendix Figure 4 for country breakdowns). For a number of countries, remittance levels have been declining despite increasing emigration numbers (see Figure 12); it is important to note that the two elements are not always linked. Remittances may dissipate over time with original emigrants sending money back home, while subsequent generations born abroad may be less inclined to do so.

**Figure 11 – Percentage of people that would consider leaving to work abroad, 2020**



**Figure 12 - Emigration and remittance changes, 2012 to 2018**



**Remittances can have distorting effects on economies and labour markets if they grow too large.** When remittances become a disproportionately large share of GDP, they can generate negative consequences within a country, such as government fiscal accounts becoming dependent on them as indirect revenue (tax via household consumption), distortive effects on the real exchange rate (as they act as a capital inflow) impacting the tradable sector, and can also push up the reservation wage within a country, exacerbating labour market issues (Lopez, Molina, & Bussolo, 2007; Faini, 1994; Chami, et al., 2008; Ivlevs, 2016; Petreski, Oviedo, & Canchoo, 2019). Moreover, when remittances are only geared towards consumption and not towards investment, they may only have short-lived benefits. However, for certain countries, the evidence shows that some families are spending a portion of remittances on higher education, but overall this evidence is still inconclusive for the region (Mara, et al., 2012; Oruc, Jackson, & Pugh, 2018; Petreski & Jovanovic, 2013).

**In the long term, sustained emigration of skilled labour and young people is diminishing the human capital of the region (brain drain).** The reduced level of high-skilled individuals is problematic as they are needed to sustain economic productivity, innovation, and economic competitiveness. Studies have shown that emigration induces labour shortages and increases domestic wages (in part due to remittances) and skills mismatches between workers and businesses (IMF, 2016; World Bank, 2018a). The outflow results in markedly lowered labour productivity and total factor productivity growth in the region. In turn, this translates into lower GDP growth rates which are constraining the region's capacity to converge with EU levels.

**Emigration can also affect the innovative capacity of the region's countries as highly skilled emigrants generate innovations abroad rather than at home** (Burchardi, Chaney, Hassan, Tarquinio, & Terry, 2020; Bahar, Choudhury, & Rapoport, 2020). Innovation transfers back to sending countries can occur from the diaspora (or "brain gain") if a sending country can effectively absorb international knowledge spillovers (Fackler, Giesing, & Laurentsyeve, 2018). However, the absorption capacity of a country is highly influenced by the human capital stock of a nation and, in the Western Balkans, that stock is shrinking, especially in key sectors such as education, healthcare, engineering and technology (Vracic, 2018; Bieber, et al., 2020). Furthermore, emigration from the region comes from lower-educated and mid-skilled professions such as craftspeople, artisans, and even construction workers, thus further deteriorating the human capital stock (Hatziprokopiou, 2005; Leitner, 2021; Krilić & Jevšnik, 2018). The reduced knowledge absorption capacity stemming from emigration limits the gains that a society can realise from capital investments and technological innovation, in turn hampering total factor productivity (TFP) growth and making it difficult for the region to transition to higher value added growth activities and to better integrate into global value added chains (Kutlaca, 2010; Vinding, 2006; Ilahi, et al., 2019; Crespo-Cuaresma, Foster, & Scharler, 2004). In a counter-factual assessment, the IMF (2016) showed that between 1995-2012, Central and South Eastern European countries would have seen a 2.5% growth in TFP if there had been no skilled emigration.

**Moreover, emigration from the Western Balkans aggravates the region's considerable demographic pressures, which in turn have profound impacts on government policies and their fiscal positions.** Western Balkan countries have seen continuous declines in fertility rates over the last several decades and at present have some of the lowest rates globally<sup>16</sup> (the average fertility rate in the region in 2019 was 1.6, well below the replacement rate of 2.1). The disproportionately large number of young emigrants exacerbates the regions' declining working age population, resulting in a growing old-age dependency ratio<sup>17</sup> in all countries (the Western Balkan average old-age dependency ratio stood at 23.6% in 2019, up from 14.2 in 1996). As a result, governments are placing greater funding attention on healthcare for the elderly (such as long-term care) and pensions (at the potential cost of investments in other key public sector services) and are responding to the resulting fiscal burdens by increasing tax policies that may disincentivise private sector growth, for instance, a high labour tax wedge (Arandarenko & Aleksic, 2019).

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<sup>16</sup> Bosnia and Herzegovina had the region's lowest birth rate of 1.25 in 2019, representing one of the lowest ten countries globally.

<sup>17</sup> As defined by the World Bank, the old-age dependency ratio is the ratio of people older than 64 to the working age population (those ages 15-64) – the indicator is expressed as the proportion of older individuals per 100 working age individuals.



#### **Info Box 4 – Western Balkan migration in the pandemic era**

The full effects of the Covid-19 crisis continue to generate ambiguity about its impact on Western Balkan migration. The initial confusion of the pandemic left many emigrants from the Western Balkans with a hurried choice of either staying abroad or returning home. During the first month of the pandemic, hundreds of thousands of emigrated citizens returned (Stojanovic, 2020; Reuters, 2020), with the exact numbers of returnees remaining uncertain. Initially, Western Balkan countries' national social security systems endured increasing pressure on how to effectively provide social security benefits and rights for returnees, many of whom effectively gave up the social security coverage to which they were entitled abroad, as unemployment insurance generally cannot be transferred between countries (ILO, 2021).

The combination of emigrated citizens returning to the region and the economic recession experienced in Western Europe initially led to a drop in regional remittances from 10.9% of regional GDP in 2019 to 10.3% in 2020. During the same time period, in gross terms, remittances, when controlled for inflation, dropped by 6.3%. However, remittance data is inconclusive and paints a varied regional picture. For instance, in Kosovo, Montenegro, North Macedonia, remittances have increased, but this likely reflects a transition from informal cash transfers (sent in person or by post, which do not show up in the data) to formal electronic bank transfers driven by border closures (World Bank, 2021). Both in Bosnia and Herzegovina and in Serbia, remittance inflows (when controlled for inflation) dropped considerably between 2019 and 2020, by -20.9% and -9.8%, respectively. As remittances typically complement government social expenditure and support the overall fiscal position via indirect consumption taxes, the decrease in remittances may place further strain on government budgets and social security systems. Nonetheless, as European economies start to recover, remittance inflows are expected to return to pre-crisis levels.

The effects of the pandemic have impacted the varied groups of emigrants in different ways. For instance, migratory seasonal workers were initially severely affected as employment opportunities abroad vanished due to travel restrictions imposed by many governments. These issues were slightly alleviated as several EU countries eased travel restrictions for seasonal agricultural workers; nevertheless, the precarious living situation of seasonal workers abroad, with often cramped housing, exposed the group to increased health risks (Krakovsky, 2020).

For highly-skilled emigration, the increased use of technology during the pandemic provided a unique opportunity for them to temporarily or even permanently return to the region to work remotely for foreign companies. This may eventually lead to a boost to the region's economies and may even generate positive knowledge spillovers if diasporas remain. However, the underlying economic and social shortfalls in the region, alongside governments' limited fiscal space to invest in key public sectors, may continue to create a sub-optimal environment for skilled workers to return and remain permanently.

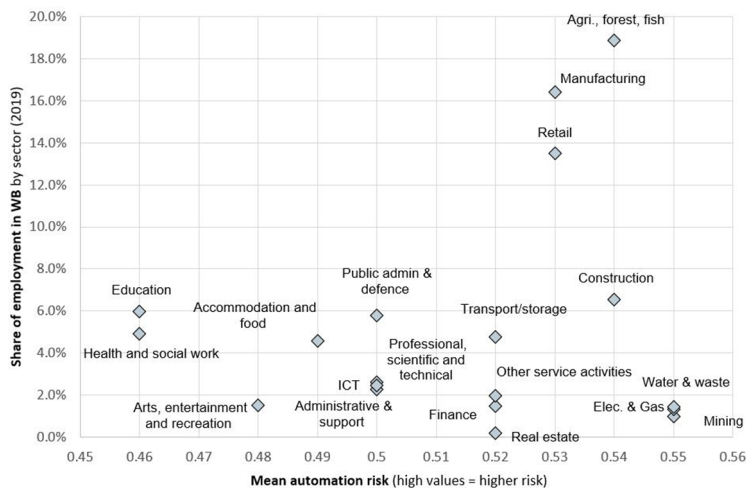
## CHAPTER 3 – OBSTACLES IN EDUCATION

### *Limiting human capital formation*

**Enhancing the education systems at all levels will be critical to ensuring that Western Balkan countries strengthen the human capital of the widest number of citizens to safeguard the region’s capacity for sustained economic and social development.** Due to the high concentration of labour in low value added sectors, Western Balkan countries are at risk of getting stuck in a low value added growth trap. Moreover, workers in these sectors have a higher likelihood of their jobs being automated or digitalised. Nearly 60% of workers in the Western Balkans are employed in sectors in which jobs have a higher probability of being automated<sup>18</sup> (see Figure 13); while not all jobs in these sectors will be automated, they are, however, more exposed to automation. In order to capture the socio-economic benefits (such as quality jobs, higher wages, and improved societal wellbeing) of a transition to more digital and/or higher value added economic activities (OECD, 2017a), the existing and future workforce will need to upgrade and develop the right skills and competencies. Moreover, improving the overall human capital base will strengthen the region’s labour force and economic resilience despite the outflow of human capital due to brain drain.

**Increasing investment to upgrade the quality of existing compulsory education systems will be critical to building the skill foundations of future generations.** From pre-primary to secondary level, current education systems in the region face a shortage of qualified teachers and educational material alike. In turn, this contributes to education outcomes that are among the lowest in Europe, with within-country education

**Figure 13 - Employment concentrated in sectors at high risk of automation**



Source - ILO, Pouliakas (2018), CEB Staff calculations

inequalities seeing wide disparities between socio-economic groups. Moreover, pre-primary education is still not fully available in all countries, exacerbating existing within-country education inequalities (and potentially impacting female labour force participation). On average, the low quality of education systems in the region also may incentivise both individuals and families to decide to move abroad (and not to return) where education systems are better funded, offer wider access, and produce higher student performance results (CoR, 2018).

**The current labour market faces a considerable skills mismatch problem, where the skills of the existing labour force do not match private-sector employer demand.** According to ILO data, in 2019, 22% of the working age population were estimated as having advanced skills, 55% as having intermediate skills and 21%

<sup>18</sup> This does not imply that all jobs in these industries will be automated, but that the potential for automation is much higher. Such industries include agriculture, manufacturing, retail sector, construction, energy sector, mining, and water/waste management.

as having basic skills<sup>19</sup>. Those with higher levels of education and training were more likely to be in employment and, if unemployed, were so for a shorter period of time. Moreover, businesses in the region often cite concerns that they are unable to find the necessary skills in the existing labour pool. ILO data also showcases a potential underutilisation of existing labour in the region, highlighting that skills upgrading through vocational education and training and life-long learning will be crucial to being able to utilise the region's full labour supply potential.

**Better quality education systems will have far-reaching benefits by creating the potential for more inclusive labour markets that foster innovation and promote long-term equality of opportunities.** Youth and women, in particular, are not fully represented in the labour market (see Chapter 1 for details); further education and training targeted to these groups can ensure a large segment of labour does not go unused (or choose to migrate abroad, particularly the youth). Moreover, a better-educated population, in general, increases the possibility of innovation and can help create new companies that can stimulate endogenous economic growth and attract foreign investment (Ognjen, 2018; Romer, 1990). Ultimately, a society that benefits from overall higher education levels will also promote intergenerational mobility, thus strengthening social cohesion and alleviating inequality in the region.

## An under-resourced education system: hindering current and future generations

**The region's education systems are currently not providing the same high quality of education to its students compared to education systems in EU countries.** Results from the 2018 OECD-PISA assessment show that Western Balkan students, on average, have some of the lowest test scores in Europe for reading, science, and mathematics. When examining the OECD-PISA reading scores, all countries are below the EU average (see Figure 14 below), from Serbia's students scoring 41 points lower than their EU counterparts to Kosovo, where there is a 128 point score difference. Within these test scores, differences exist between students from different socio-economic backgrounds, as students from more advantaged backgrounds typically achieve better results both in the EU and the Western Balkans. However, in many Western Balkan countries, those students in the top socio-economic quartile often receive scores equivalent to the average scores of EU students who come from the lowest socio-economic background. The rate of students in the region who are considered functionally illiterate can be between two and nearly three and a half times higher than the EU average rate (see Appendix Figure 5). Moreover, enrolment rates in secondary education (the school years when PISA tests are taken) remain below overall European levels and in some countries have been decreasing in recent years after years of improvements (see Appendix Figure 6).

**Education systems throughout the region are inadequately resourced to provide the most effective learning environments for students.** A central aim of the education system is to provide high quality, equitable, and inclusive education that minimises the potential differences between students' socio-economic circumstances<sup>20</sup>. Yet, in the Western Balkans, education systems often exhibit resource shortfalls and spending inefficiencies relative to their EU counterparts, thus potentially limiting the system's capacity to even the playing field within and between countries. In 2017, public education expenditure as a percentage of GDP in Albania and Serbia<sup>21</sup> stood at 3.6% and 3.7%, respectively, roughly one percentage point lower than the EU average of 4.7%. Additionally, on average, Western Balkan countries, spend roughly

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<sup>19</sup> CEB staff calculations based on ILO data. The ILO defines the three categories as follows: High skilled labour includes the broad categories of managers, professionals (analysis, research, teaching and application science and artistic theory), technicians/associate professionals. Medium skilled labour includes the broad categories of clerks, services and sales, skilled-agriculture, crafts and trades, plant and machine operators. Low skilled labour is defined as elementary occupations such as building maintenance, sanitation, construction, low-end manufacturing, low-skilled agriculture, and transport (non-exhaustive list).

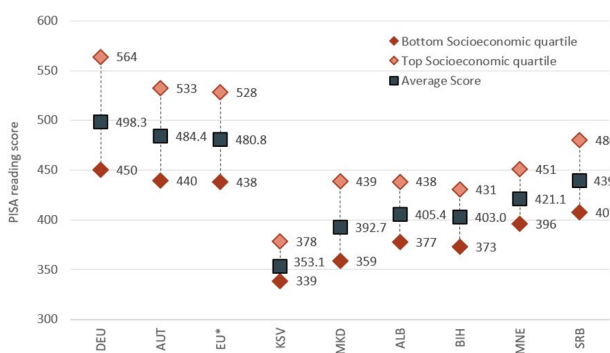
<sup>20</sup> This can include a variety of elements such as parental educational background, geographic location, household income level, etc.

<sup>21</sup> Internationally comparable data is only available for Serbia and Albania in the UNESCO education database – North Macedonia has data available only in 2002 and was not included in this report.

\$26,000 (PPP-adjusted<sup>22</sup>) over the lifetime of a student in compulsory education, as opposed to an average \$90,000 in the EU (see Figure 15). While spending more per student does not necessarily translate into increased education outputs, the OECD (2020) has shown that when cumulative expenditure per student is below \$50,000 (the case for Western Balkan countries), higher expenditure is more likely to positively impact test scores. It is important to note that, in most countries, the majority of public spending on education is used to cover staff and administrative costs, with only a small portion made available for improving and investing in education infrastructure (ETF, 2020).

**Material resources that are needed for effective teaching are inadequately supplied in many Western Balkan countries.** Over half of schools in the Western Balkans reported inadequate educational material such as textbooks, library/laboratory resources, and ICT equipment<sup>23</sup> compared to just under one third of schools in the EU. There are clear country differences within the region, from 31% of schools lacking educational material in Montenegro to 83.4% in Kosovo (see Appendix Table 1). Importantly, access to digital technologies at schools was also low in most of the region's countries, with, on average, only one computer for every 3.8 students (compared to the EU, with a computer for every 1.3 students), and with 26% of those computers not connected to the internet (in the EU on average only 2% of computers are not connected). This is reinforced by the concern that nearly 65% of schools reported not having enough digital devices for educational purposes (see Appendix Table 1) – despite many teachers having good ICT skills, see the following paragraph. These resource deficiencies tend to be more pronounced in schools with lower socio-economic profiles (i.e. disadvantaged schools) relative to their more affluent counterparts<sup>24</sup>. However, even socio-economically advantaged schools cite resource constraints, with 45% of advantaged schools in the region reporting inadequate educational materials (only 23% do so in the EU). In sum, shortages of digital teaching resources (computer and internet access) are common among all schools in the region, regardless of their socio-economic profile.

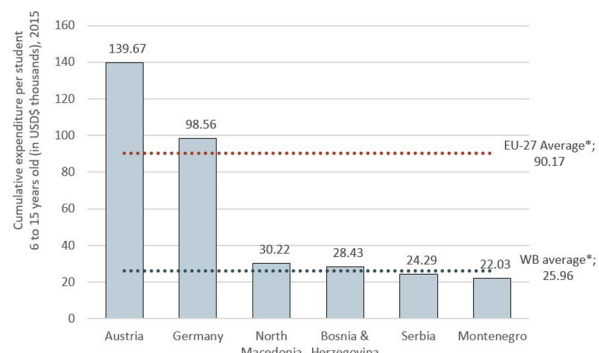
**Figure 14 - PISA reading scores, by Western Balkan countries and EU comparisons, 2018**



Source - OECD and CEB Staff calculations

\* average does not include Spain due to data availability

**Figure 15 - Total education spending per student from ages 6 to 15 years old, 2015**



Source - OECD and CEB staff calculations

\*weighted average by GDP

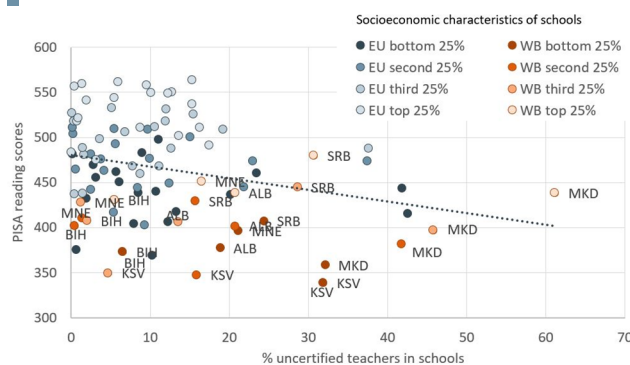
<sup>22</sup> While these figures are adjusted for USD dollar purchasing power parities (PPPs), as the OECD states in an attempt "to reflect the amount of national currency that is required to produce the same basket of goods and services in a given country as produced by the United States", it is also important to recall that countries have different factors affecting education spending, such as absolute GDP levels, and that varying the policy emphasis of education may translate into different costs for education (OECD, 2017b).

<sup>23</sup> This definition is based on the OECD's PISA assessment (OECD, 2020a).

<sup>24</sup> In Kosovo, schools in the bottom socio-economic profile quarter and those in the top quarter report issues of having limited educational materials, 92.1% and 93.1%, respectively.

**Many schools in the Western Balkans suffer from a shortage of qualified teachers and may have reduced classroom teaching time, pointing to further shortfalls in the region's education systems.** On average, 21% of teachers in the Western Balkans do not possess the necessary certification to teach, compared to 8% in the EU; in Bosnia and Herzegovina, only 3.6% of teachers do not possess the necessary certification, as opposed to 24.3% in Serbia and 47% in North Macedonia (see Appendix Table 1 for details). At the same time, there are differences in the total time teachers spend in front of their students (for countries where data is available – see Appendix Figure 7): in North Macedonia, the total number of teaching hours in secondary school<sup>25</sup> is near 1,200 hours (similar to the EU average of 1,205 hours), while in Bosnia and Herzegovina the figure is closer to 1,102 hours (which is 103 hours less than the EU average). Paradoxically, despite the limited digital devices in the region's school systems, nearly 76% of teachers, on average, in the Western Balkans, possess the necessary skills to incorporate digital tools for teaching purposes<sup>26</sup>, which is higher than the EU average of 67% (see Appendix Table 1).

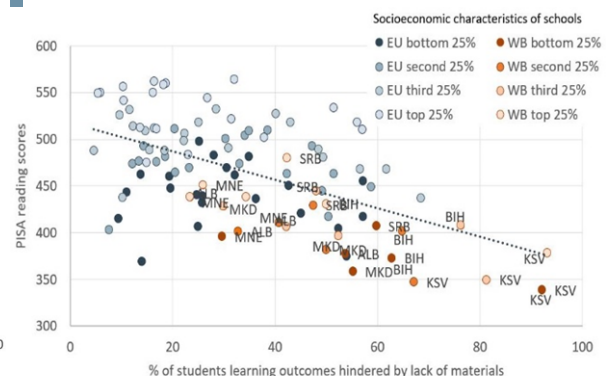
**Figure 16 - Uncertified teachers and reading test scores, 2018**



\* students mean performances from all four socioeconomic groups represented for each country  
\*\* schools from all four socioeconomic groupings are included

Source - OECD and CEB Staff calculations

**Figure 17 - Availability of reading materials and test scores, 2018**



\* students mean performances from all four socioeconomic groups represented for each country  
\*\* schools from all four socioeconomic groupings are included

Source - OECD and CEB Staff calculations

**Western Balkan education systems could be strengthened if increases in educational resources are equitably distributed and teachers are able to harness modern instructional practices.** The lack of educational materials and qualified teachers is negatively correlated with performance in test scores; this is most pronounced in disadvantaged schools, where the lack of materials and qualified teachers is most evident compared to their EU counterparts (see Figures 16 and 17 above). While research has shown an increase in education resources will not necessarily translate into increased test scores, it has been shown that countries that more equitably distributed resources between advantaged and disadvantaged schools tend to see higher test scores and that this helps even the playing field to allow all students to succeed (OECD, 2019a). Most importantly, teachers will need to have the necessary qualifications to harness the full potential of any increase in educational resources and materials. While expanding the number of qualified teachers is crucial throughout the Western Balkans, it will also be necessary to ensure that teacher training programmes strengthen entry requirements and certification exams to ensure that the best qualified and most motivated become teachers (OECD, 2020b). Moreover, increased attention will need to be placed on teacher training (“soft components”) and on how to utilise more adaptive teaching styles<sup>27</sup> (which work to incorporate both traditional and more constructive/dynamic teaching styles). As the OECD underlines, this can be facilitated by strengthening teaching standards and codes of conduct (which need to be clearly communicated to teachers) that can help improve pedagogical and teaching skills, and, in turn, the education outcomes of future generations.

<sup>25</sup> Secondary school here includes both upper and lower levels, the data is disaggregated by level in Appendix Figure 7.

<sup>26</sup> A ratio that is unchanged by the socio-economic profile of schools.

<sup>27</sup> Research on teacher practices undertaken by the OECD has highlighted two methods (although they stress not to create an artificial dichotomy): *direct transmission* teaching where knowledge and solutions are transmitted to students to arrive at the right answer in a “calm and concentrated” classroom environment (traditional teaching), and *constructive* teaching where students are treated as active and not passive participants (OECD, 2021); and that effective teachers work to utilise elements of both methods based on the specific needs of a classroom (i.e. to be adaptive).



### Info Box 5 – Remote education in the Western Balkans during the pandemic

As in many countries worldwide, the Covid-19 pandemic forced the Western Balkan education systems to transition towards remote teaching solutions. During the initial outbreak of COVID-19, schools in the region quickly closed down while later transitioning to a variety of remote teaching methods, ranging from full-time online schooling to different mixed-method options of combined in-person and remote learning. The region extensively used television broadcasts of recorded lessons, but schools also used radio broadcasts, online platforms, and mobile devices, whereas higher education institutions mainly relied on virtual video conference solutions (World Bank, 2020a; Gjermani & Lika, 2021).

The measures imposed on the education systems in the region will have short- and long-term adverse effects on human capital growth and equality of education. The widespread use of television-based lessons is likely to be less effective than online teaching platforms. The former eliminates the possibility of individual lessons and lacks interconnectivity between students and teachers. While access to television in the region is widespread, access to high-speed internet and household ICT equipment is uneven between students from low and high income backgrounds. For instance, one in ten students in the region did not own a computer, according to the OECD, and in some households with computers, access might be shared among family members. In some cases, schools did provide students without ICT access at home with computers and tablets. In some instances, deals were struck with internet service providers to grant free internet to students during the pandemic (OECD, 2020c).

However, schools entered the crisis ill-prepared to transition to online teaching (World Bank, 2020a). On average, only 33.6% of schools in the region have an effective online learning support platform available (OECD, 2020d) compared to nearly 51%, on average, in the EU. Moreover, schools in the region were less likely to have sufficient availability of teaching software, on average 41.5% of schools in the Western Balkans, compared to 71% in the EU. However, on average, 76% of teachers in the region had sufficient technical and pedagogical skills to integrate digital devices towards instruction, compared to just 66% in the EU. This data again points to a picture of a region that may not have sufficiently invested in the quality and inclusivity of its existing education systems. As the pandemic continues to unfold, it will be important to prioritise safe in-person school attendance and implement accelerated learning and after-school support programmes to help narrow the learning attainment gaps that have arisen during the pandemic (UNICEF, 2021).

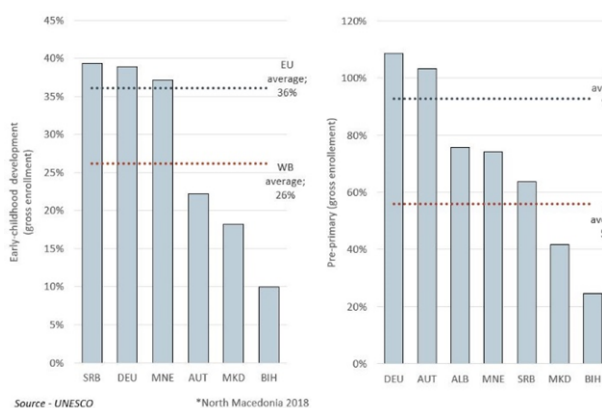
## The role of early childhood education: an equalising force on multiple fronts

**Improving access to early childhood education<sup>28</sup> in the Western Balkans can ensure an inclusive education system that benefits all students.** Research has shown that for children from socio-economically disadvantaged backgrounds, access to pre-primary education can counter negative environmental and intergenerational mobility issues that adversely affect early childhood development and later life education performance (Shonkoff & Phillips, 2000; Knudsen, 2004). Early childhood education offers environments that foster the healthy development of foundational skills for children (such as social interactions, basic problem solving, and operating with autonomy), which can lead to improved results later in the education cycle (test results, grade-continuation, etc.) and in later life socio-economic outcomes (OECD, 2011a). Most importantly, it helps narrow the disparity of education outcomes between socio-economic groups, as students from disadvantaged backgrounds are able to take advantage of knowledge developed in early childhood education (which is typically more readily available for more children coming from a more affluent background) (Cunha, Heckman, Lochner, & Masterov, 2006). This knowledge can help complement and increase productivity at later stages in the education system, thus ensuring disadvantaged children do not start school with a handicap (Gini Research Project, 2011).

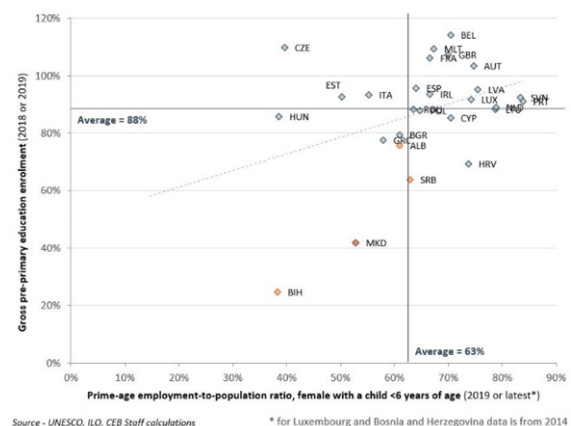
<sup>28</sup> Sometimes referred to as pre-primary education or pre-school education.

**Yet access to early childhood education is low in a number of Western Balkan states compared to EU rates, limiting the education systems' capacity to help reduce education inequalities at an early age.** The average early childhood development programme gross enrolment rates in the Western Balkans, in 2019, stood at around 26%, about ten percentage points lower than the 36% average in EU countries<sup>29</sup> (see Figure 18); Montenegro and Serbia were regional leaders with high gross enrolment rates of 37% and 39%, respectively. A different picture emerges when examining the more comprehensive pre-primary education level, which is set to help prepare children for compulsory primary education. The pre-primary gross enrolment<sup>30</sup> rate in most Western Balkan countries remained below the EU average of 93% in 2018<sup>31</sup>, ranging from 42% in North Macedonia to 76% in Albania, with differing changes in the rate in recent years (see Appendix Figure 8). Despite most countries' attempts to enact policies to encourage expansion of pre-primary school enrolment, challenges persist. Rural areas in some of the region's countries continue to have an under-provision of early childhood education, further widening rural and urban divides (European Commission, 2020a; European Commission, 2020b). Discouragingly, evidence from the region shows that, in some countries, early childhood enrolment rates for vulnerable groups, the socio-economically disadvantaged and ethnic minorities are low due to cost or geographical access issues – with rural areas having even fewer options available (European Commission, 2020a).

**Figure 18 - Early-childhood educational enrolment rates in Western Balkans, 2019\***



**Figure 19 - Pre-primary education enrolment and female prime-age employment-to-population ratio**



**Early childhood programmes in the region suffer from low spending levels and issues with the quality of schools and staff.** Early childhood education generates the largest marginal rates of return for education systems compared to any other stage of education - early intervention can help build cognitive and non-cognitive skills that would require considerably more investment to develop<sup>32</sup> later in the education system (Heckman & Cunha, 2010; Cunha, Heckman, & Schennach, 2010; OECD, 2011b). While accurate data concerning public spending on early childhood education is not widely available, OECD data from the 2018 PISA assessment points to a potential under-investment in the sector (see Appendix Figure 9). For countries where data is available, the average expenditure per early childhood pupil was approximately USD\$ 1,450 (PPP-adjusted<sup>33</sup>) in 2015, compared to an EU-27 average of USD \$7,914. A primary issue concerning early childhood education in the region is that staff' skills are centred mainly on theory and less on practical and emotional competencies (highly important for younger children); this is primarily the result of how formal

<sup>29</sup> At the time of drafting this report, 2018 was the most recent year when EU data was available.

<sup>30</sup> The authors' analysis also examines net pre-primary enrolment rates, which show a slightly worse situation, but with similar trends.

<sup>31</sup> At the time of drafting this report, 2018 was the most recent year when EU data was available.

<sup>32</sup> Additionally, it is cost effective to provide early childhood education which increases the capacity of a child to do well at later stages of the education system (leading to higher graduation rates and lower dropouts), rather than remedial education programmes that help dropouts and adults try to catch up (OECD, 2011b).

<sup>33</sup> See footnote 22 for further details on this measure.

education systems train prospective staff (Peeters, 2016). Thus, further investments will be needed to shore up the soft skills of teaching staff by focusing on training and professional development programmes to help with psychological or pedagogical skills development (Peeters, 2016; Emiliani, Balduzzi, Melotti, & Villano, 2014). Furthermore, the staff that take up early childhood education positions are mostly not the top students in their secondary schools or universities, underscoring further potential shortfalls in staff quality.

**Widening early childhood education may also provide women with increased choice and opportunity to participate in the economic and social development of the region.** Female labour participation in some Western Balkan countries is low (in Kosovo, it is roughly 21% and in Bosnia and Herzegovina 44%), with a regional average of 50%, approximately 19 percentage points lower than the EU average of 69% (see Appendix Figure 10). Given the demographic declines (including contributions from emigration) affecting the future economic prospects of the region, failure to fully incorporate the human capital of women will decrease the region's capacity to achieve higher economic growth and, in turn, convergence (IMF, 2017). The shortfall in women in the labour force in some Western Balkan countries results from a mixture of issues arising from public policies (for example, tax and family leave) and cultural factors that disincentivise working. However, chief among them is the need to provide familial support, such as childcare (IMF, 2017). As shown in Figure 19, countries with high pre-primary education enrolment rates often see a corresponding positive correlation with a high female employment-to-population ratio for women with children under the age of six. Thus, investing in widening access to pre-primary education can improve the level of female participation in the region.

## Life-long learning and training: vocational education and training to boost skills of the region's workforce

**The Western Balkan long-term unemployment levels are among the highest in Europe, severely affecting workers long-term work life prospects.** The region's high unemployment levels (as outlined in Chapters 1 and 2) - an often-stated reason for emigrating abroad - become even starker when considering how long people remain unemployed. Figure 20 shows that 64% of those unemployed in the Western Balkans were so for 12 months or more, compared to Germany (the main destination country of migrants), where the figure is 37.8%. Long-term unemployment has damaging effects on the labour force as it often deteriorates existing skills, diminishes self-confidence and motivation, and increases the risk of people leaving the labour market (OECD, 2016a). As a result, the regional rate of discouraged workers (those who have stopped applying for work) is roughly 3% - the rate is almost non-existent in high emigration destination countries such as Germany (0.08%) and Austria (0.05%) (See Appendix Figure 11).

**Skills mismatches and labour underutilisation are notable problems in the region's labour market.** When examining macroeconomic skills mismatch<sup>34</sup> indicators, the Western Balkans often perform considerably worse than their EU counterparts (see Figure 21). This type of mismatch occurs when the distribution of skills differs between the available workforce and those that get hired (Vandeplass & Thum-Thysen, 2019). A higher degree of mismatch thus indicates difficulties to match, by skill level, unemployed workers to the available jobs in the economy. In the Western Balkan countries, this indicates a labour market situation where there are too many individuals with low education levels compared to employment opportunities for the group; conversely, it indicates an insufficient number of highly educated individuals relative to employment opportunities for the group. According to ILO data, the region's labour market is characterised

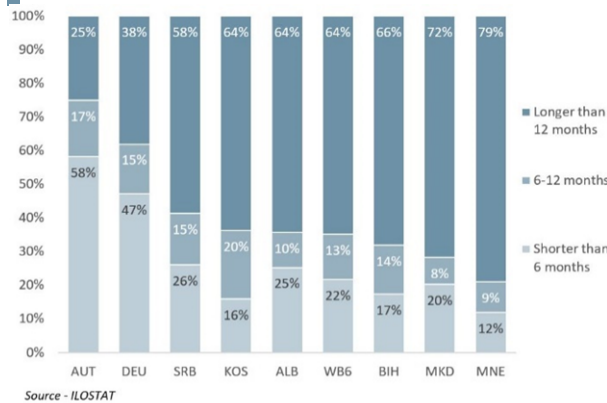
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<sup>34</sup> Macroeconomic skills mismatch estimates the degree of skills mismatch by calculating the relative dispersion of employment rates by education attainment; this gives an indication of how structural changes in the labour market have affected the supply of and demand for skills. See Appendix 2 Methodology Section.

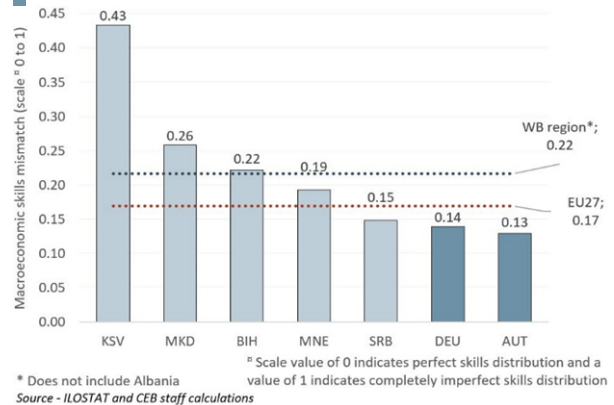


by a high average labour underutilisation rate<sup>35</sup>, which in 2019 was 23.5%, compared to the EU average of 12.2% and in Germany 8%. Long-term unemployment and underutilisation rates point to a picture in which the labour market cannot absorb the existing labour force.

**Figure 20 - Duration of unemployment as a share of total unemployment, 2019**



**Figure 21 - Macroeconomic skills mismatch indicator, 2019**



**The persistent skills mismatch is a considerable obstacle for the region's economies to effectively transition to higher value added activities.** The overall low level of worker education and skills hampers labour productivity growth, as it constrains the reallocation of labour from low to high productivity sectors. This persistent lack of adequate skills<sup>36</sup> needed by the region's private sector (exacerbated by skilled workers emigrating) constrains the region's economic competitiveness, its ability to attract investments in higher valued added sectors and, ultimately, its ability to maintain economic growth. Research has found that skills mismatch in transitioning economies is linked to low levels of public education expenditure and low education quality, which contribute to a lower number of skilled workers; moreover, education systems need to be reshaped to service the needs of the labour market (Sondergaard & Murthi, 2012). In the BEEPS 2013-14 survey<sup>37</sup>, 34% of businesses active in the Western Balkans stated that an inadequately educated workforce was an obstacle to current operations (whilst one third of these companies found the issue to be major or very severe) (Sanfey & Milatovic, 2018). Several reasons have been identified as contributing factors to the persistence of skill mismatches in the Western Balkans, such as insufficient investment in on-the-job or adult training programmes. Failure to adequately invest in such training programmes can halt workers' skills development or re-skilling opportunities and their ability to adapt to technological change or long-term unemployment (see above), which contribute to the obsolescence of existing skills (Arandarenko, et al., 2012).

**Vocational education and training (VET) and life-long learning programmes are crucial to enhancing the region's workforce skills.** VET and life-long learning opportunities are crucial to help individuals develop new skills or adapt existing ones to effectively integrate into the evolving labour markets of economies undergoing structural changes (for instance, the current digitalisation and greening of many European economies). However, the availability and uptake of training programmes in the Western Balkans are low. According to Eurostat data, the average percentage of people participating in vocational education (in the last 12-months) in 2016 stood at 12.6%, compared to the EU average of 44%. The most cited reason why individuals do not access training is the associated costs. Yet, based on Eurostat data, only 8% of people in the region took advantage of free public IT skills training programmes in 2020, potentially resulting from the low availability of facilities, student places, and information regarding such programmes. The low uptake of

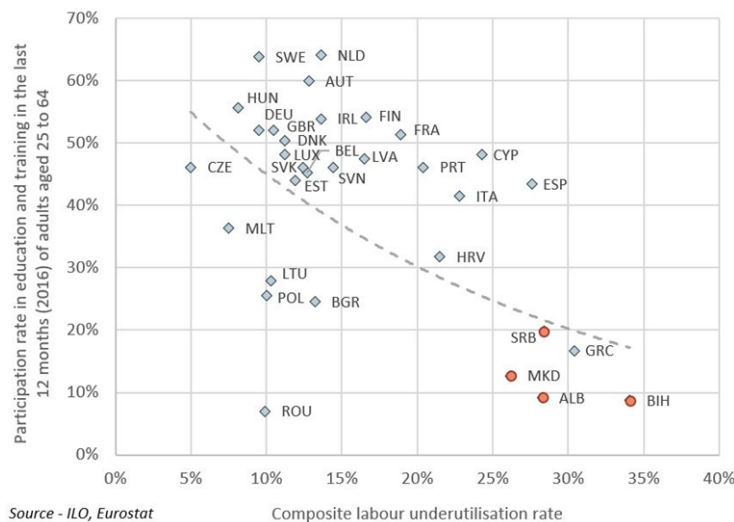
<sup>35</sup> An ILO indicator which is a composite measure calculation of the potential labour force combined with persons in unemployment and time-related underemployment.

<sup>36</sup> 1) technological progress making old skills redundant, 2) insufficient investment in on-the-job training, 3) long-term unemployment making previous skills obsolete, and 4) insufficient opportunities for adult and lifelong learning halting re-skilling of the workforce.

<sup>37</sup> EBRD-World Bank Business Environment and Enterprise Performance Survey, 2013-2014.

vocational training in the region (highlighting potential availability issues) is negatively correlated with the countries' labour force underutilisation rates (see Figure 22). Thus, further investments in VET and life-long learning could help workers whose skills have become obsolete and provide young people entering the workforce with skills that are in demand from employers.

**Figure 22 - Labour underutilisation and adult training participation in the last 12 months**



**More policy and investment attention should be placed on improving existing vocational education in the Western Balkans to respond to the labour market's skills needs.** VET in the region has been found to have poorly adapted training systems, and cooperation with the private sector is inadequate. Yet this cooperation would be crucial to providing the necessary skills that the private sector demands (OECD, 2016b; Arandarenko, et al., 2012). Furthermore, the availability of on-the-job training needs to be increased to ensure that vital skills are upgraded, in particular in the context of the ongoing digital transition

(Valsamis, Coen, Vanoeteren, & Beken, 2015). Private enterprises have expressed dissatisfaction with the available technical training programmes, stating that effective training programmes are too expensive or simply non-existent; introducing tax incentives for companies or paid training leave for individuals could help boost VET uptake (OECD, 2016b). Moreover, further investment in the public provision of teaching programmes can ensure access to training is available for those currently outside the workforce, the socio-economically disadvantaged, and marginalised and vulnerable minorities.

## CHAPTER 4 – CHALLENGES IN HEALTHCARE

### *Shortfalls in supporting citizens' health*

**Many Western Balkan health systems are falling short in enhancing the human capital potential of their citizens, unlike in many emigrant destination EU countries.** Achieving quality and affordable healthcare in the Western Balkans is necessary to strengthen its citizens' health and help improve their well-being, life satisfaction, and ability to productively contribute to the development of societies. However, in many Western Balkan countries, health systems are to varying degrees confronted with issues of resource and quality deficiencies that potentially contribute to sub-optimal health outcomes. The effectiveness of the health systems in some of the region's countries is further strained by various additional factors such as demographic decline (ageing and drops in fertility rates), poor environmental conditions (such as air pollution), and poor health lifestyle choices. In turn, the health systems' shortfalls and lack of equality of access (plus the education shortfalls described in the previous chapter) damage the human capital potential of people in the region. On the other hand, the health systems in migrant destination countries tend to enhance health outcomes that sustain people's capabilities to be productive members of society and increase life-long wellbeing.

**While headline health indicators, such as life expectancy, have been improving over the last two decades, they remain below the EU averages.** Life expectancy in the Western Balkans, on average, has increased from 72.4 years in 2000 to 76.1 years in 2019, a net addition of 3.8 years (see Table 1). While country differences do exist, overall life expectancy growth is slightly below the EU average, and in absolute terms, it is on average five years lower than in the EU (in 2019, the EU average was 81.1 years). Infant mortality has dramatically declined in almost all countries; in 2000, there were an average of 14.1 infant deaths per one thousand live births, and by 2019, the rate had fallen to 5.1. In some countries, such as Albania, the rate remains elevated at 8.6, but this comes from an extremely high rate of 24.1 in 2000. Montenegro had the lowest infant mortality rate in the region of just 2.0 in 2019, down by a value of 10.6 since 2000. The region still has relatively high maternal mortality rates, at ten per one hundred thousand live births. Albania, Bosnia and Herzegovina, and Serbia, in particular, have rates that are well above EU averages. Thus, while all these indicators have been advancing in the right direction, they remain high by EU standards in many countries, indicating potential room for improving the regions' health systems.

**Table 1 - Life expectancy, infant mortality and maternal mortality indicators**

Country	Life expectancy (years at birth)				Infant mortality (per 1,000 live births)				Maternal mortality (per 100,000 live births)			
	2000	2009	2019	Change 2000-2019	2000	2009	2019	Change 2000-2019	2000	2009	2017*	Change 2000-2017
Albania	74.0	76.2	78.6	4.6	24.1	12.9	8.6	-15.5	23.0	20.0	15.0	-8.0
Bosnia and Herzegovina	74.4	75.8	77.4	3.0	8.7	6.6	5.1	-3.6	17.0	11.0	10.0	-7.0
Kosovo	67.7	69.9	72.5	4.8	..	..	..	..	..	..	..	..
Montenegro	73.2	74.8	76.9	3.7	12.6	6.5	2.0	-10.6	12.0	8.0	6.0	-6.0
North Macedonia	73.3	74.5	75.8	2.5	14.1	9.5	5.3	-8.8	13.0	8.0	7.0	-6.0
Serbia	71.6	74.0	75.7	4.1	11.0	6.8	4.6	-6.4	13.0	12.0	12.0	-1.0
<b>WB average</b>	<b>72.4</b>	<b>74.2</b>	<b>76.1</b>	<b>3.8</b>	<b>14.1</b>	<b>8.5</b>	<b>5.1</b>	<b>-9.0</b>	<b>15.6</b>	<b>11.8</b>	<b>10.0</b>	<b>-5.6</b>
European Union	77.1	79.4	81.1	4.0	5.9	4.2	3.3	-2.6	10.0	7.0	6.0	-4.0
Austria	78.1	80.3	81.8	3.7	4.6	3.7	2.8	-1.8	6.0	5.0	5.0	-1.0
Germany	77.9	79.8	80.9	3.0	4.4	3.5	3.2	-1.2	7.0	6.0	7.0	0.0

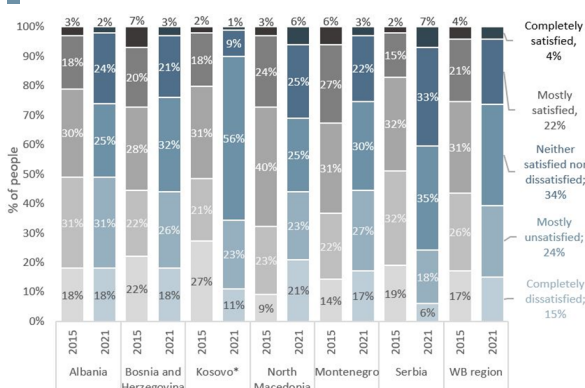
Source - World Bank and CEB staff calculations

\* most recently available date

**The provision of quality healthcare access remains a challenge in the Western Balkans, leading to high individual costs and high healthcare system dissatisfaction.** Most countries' healthcare coverage remains well below EU levels; the region's average UHC Service Coverage Index<sup>38</sup> score stood at 65, compared to the EU average of 78 (see Appendix Figure 12). High out-of-pocket expenditures and unequal access by all segments of the population underscore inequalities within the region's healthcare systems. As the following sections will show, the region's healthcare systems are also often characterised by an under-provision of essential resources and healthcare staff relative to EU counterparts. As of 2021, over 39% of the population was dissatisfied with their health system (see Figure 23), down from 43% in 2015 (most of the change in the region was due to decreasing dissatisfaction levels in Serbia and Kosovo).

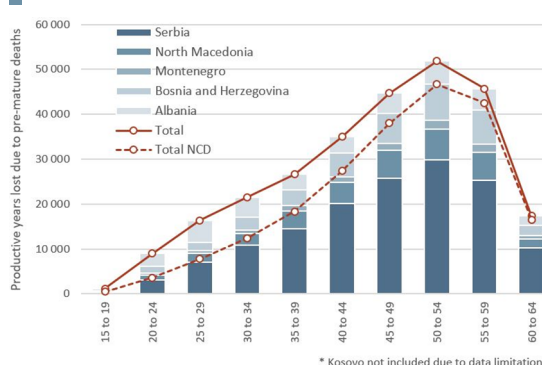
**The inadequacy of regional health systems is highlighted by poor health outcomes and high mortality due to non-communicable diseases<sup>39</sup>, which subsequently generate severe economic costs.** Health systems in the region often focus on inpatient care which is less cost effective than primary and preventive care (WHO, 2018), the latter is especially needed in the region where poor lifestyle choices (e.g. smoking, alcohol consumption) lead to high levels of chronic (non-communicable) diseases (OECD, 2017c; Bredenkamp & Gragnolati, 2007; CEB, 2021). The high share of non-communicable diseases (NCDs) places a high cost burden on the region's healthcare systems, drives up healthcare prices, and places pressures on social security covering illnesses (WHO, 2011; WHO, 2015; World Bank, 2020b). Empirical work has shown that a 10% increase in the rate of NCD cases can result in a decline in GDP of -0.5%<sup>40</sup> (Stuckler, 2008). An estimated 270,000 productive years were lost in the Western Balkans due to premature deaths in 2019, with 80% of those lost years attributed to NCDs (see Figure 24). Additionally, poor health outcomes may be contributing to individuals exiting the labour force at an earlier age than is observed in the EU, potentially contributing to additional economic losses to countries (see Appendix Figure 13). Moreover, treatable and preventable mortality<sup>41</sup> rates remain high in the region, further underscoring the limitations of the healthcare systems; for example, in Serbia in 2018, there were 398 treatable/preventable deaths per 100,000 people (compared to the EU average of 256 in 2016).

**Figure 23 - Satisfaction with healthcare services**



Source - Balkan Barometer

**Figure 24 - Productive years lost due to pre-mature deaths**



\* Kosovo not included due to data limitations

Source - CEB staff calculations using ILO, IHME GBD, national statistics office, adaptation of methodology employed by Schneider, et al. (2021)

<sup>38</sup> UHC Service Coverage Index is a measure that assesses the "Coverage of essential health services (defined as the average coverage of essential services based on tracer interventions that include reproductive, maternal, newborn and child health, infectious diseases, non-communicable diseases and service capacity and access, among the general and the most disadvantaged population). The indicator is an index reported on a unitless scale of 0 to 100" (WHO, 2019a).

<sup>39</sup> Noncommunicable diseases (NCDs) based on the WHO definition, are "also known as chronic diseases, tend to be of long duration and are the result of a combination of genetic, physiological, environmental and behavioural factors. The main types of NCD are cardiovascular diseases (such as heart attacks and stroke), cancers, chronic respiratory diseases (such as chronic obstructive pulmonary disease and asthma) and diabetes." (WHO, 2021; Schneider, Thiebaud, Abdul-Hamid, Arnhold, & Sondergaard, 2021).

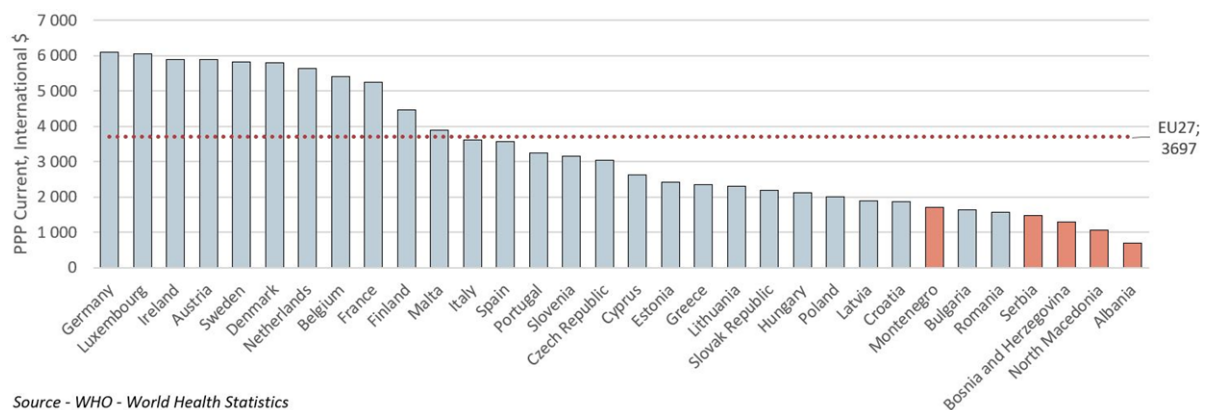
<sup>40</sup> Analysis undertaken in the European Union has calculated the costs of certain NCDs to health-care systems. Cardiovascular disease cost the EU healthcare system EUR 111 billion in 2015, and cancer EUR 97 billion in 2018 (European Commission, 2021e).

<sup>41</sup> As defined by Eurostat, "treatable and preventable mortality is based on the idea that certain deaths (for specific diseases/conditions could be 'avoided' among people aged less than 75 years. In other words, these avoidable deaths would not have occurred at this stage (before the age of 75 years) if there had been more effective public health and/or medical interventions in place" (Eurostat, 2020).

## Healthcare systems: under-resourced and under-staffed

**On average Western Balkan per capita expenditure on healthcare is below the EU average.** In 2018, current health expenditure as a percentage of GDP ranged from 5.3% in Albania to 8.9% in Bosnia and Herzegovina (WHO/World Bank data), whereas, according to Eurostat, in the same year, the EU average was 9.9%. Due to the relatively lower gross domestic product in the region than in the EU, this translates into low levels of health expenditure per capita, as shown in Figure 25. The average value of the healthcare consumed in the Western Balkan countries is thus significantly lower than the EU average, potentially implying low access to healthcare for citizens. Furthermore, a significant part of the total expenditure is derived from private health expenditure (out-of-pocket expenditure), which places a large burden on individual disposable income (more detail in the following section).

**Figure 25** - Current health expenditure per capita, 2018, PPP current international \$



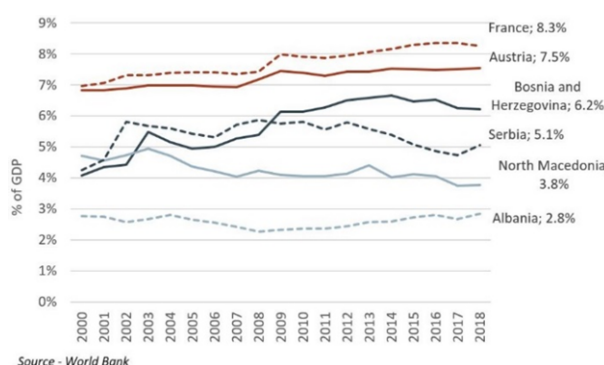
Source - WHO - World Health Statistics

**Low public expenditure and investment levels have contributed to a deterioration in the quality and capacity of the health systems.** One reason health outcomes in the Western Balkans are not better than they are is due to the lack of funding being made available for some of the region's healthcare systems. In 2018, public health expenditure in the Western Balkan countries was lower than the EU average of 7.3% of GDP, particularly in North Macedonia and Albania, 3.8% and 2.8% of GDP respectively (see Figure 26), potentially signalling that investment in the healthcare system is not sufficiently prioritised in all countries. Public health spending in the region tends to focus on hospitals, curative and tertiary care, and equipment maintenance. Health systems in the region are considered inefficient due to issues ranging from poor integration and coordination of healthcare networks that generate coverage ineffectiveness, concerns of limited "value for money" of medical services, health system indebtedness, and high rates of hospitalisation and specialised referrals at the cost of underutilisation of primary care doctors (Forde, 2020; IMF, 2020a; IMF, 2019; WHO, 2020; WHO, 2019b). Despite the need to improve healthcare systems, governments have limited fiscal space to do so (OECD, 2020e).

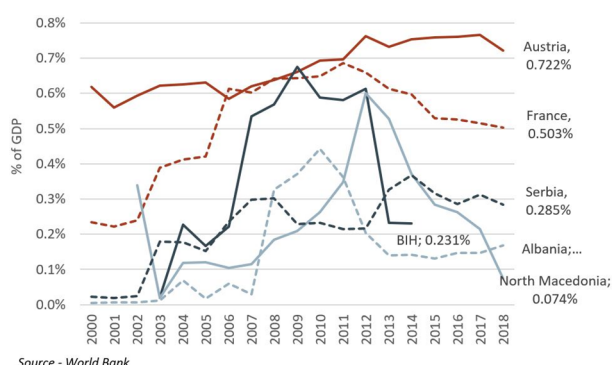
**Simultaneously, capital health expenditure, which includes public and private investment in health infrastructure, has also been considerably lower and less stable than in EU counterparts.** In most countries in the region, capital expenditure peaked between 2010 and 2012, before falling and remaining low (see Figure 27); Serbia is the exception in maintaining capital investment levels at a higher rate by historical levels, but even so, levels have been on a slight downward trend since 2014 (the low level of capital expenditure is also visible when examining capital investment per capita, see Appendix Figure 14). Low capital expenditure contributes to the region's inability to meet the considerably high health infrastructure investment needs in hospitals, equipment, and communication systems (WIIW Report; BiEPAG, 2020). Inadequate health infrastructure negatively affects the quality of care and limits the ability to efficiently use current health expenditure, particularly as the importance of diagnostic and therapeutic equipment and new technology has been growing in recent years (OECD, 2015). Moreover, the efficiency and quality of capital investments are also a concern in the region as they may not always be of the highest quality (World Bank, 2019a).



**Figure 26 - Public health expenditure as a % of GDP**



**Figure 27 - Capital health expenditure as a % of GDP**



**Increased access to primary and preventive healthcare is needed, but is difficult to realise with current public budgetary constraints.** Healthcare systems in the region strongly focus on curative rather than primary and preventive<sup>42</sup> care. Additionally, availability of primary care is limited in many rural areas due to long distances to practitioners<sup>43</sup> (Matkovic, 2017), and access to prescription medicine continues to face challenges regarding costs (World Bank, 2020b). An increase in the quality of the primary care system would contribute to an overall more efficient health system by preventing unnecessary hospitalisation for conditions that could instead be handled by primary care providers (World Bank, 2020c). Primary care has thus become an investment policy priority in the region (World Bank, 2020b; EDA, 2021; Front. Public Health, 2021; World Bank, 2018b; World Bank, 2007), as it is crucial to guarantee effective healthcare for all, and especially for those suffering from chronic conditions, to have access to preventative health services. Preventative care is more cost efficient in generating better long-term societal outcomes, especially given the high NCD rates and the associated high cost of curing them (World Bank, 2018b; World Bank, 2016; World Bank, 2020d; World Bank, 2019a; CEB, 2021).

**Overall, the low quality of health sectors in Western Balkan countries is a burden on the social welfare of citizens.** The healthcare systems in the region tend to have low levels of personnel and healthcare equipment. The number of beds per doctor and bed-occupancy rates between hospitals can vary greatly, further underlying potential inefficiencies in the geographical dispersion of health services (World Bank, 2019b; World Bank, 2015). Doctors and nurses per 1,000 people are below the EU average, and long waiting times for medical services are commonplace (Lazarevik & Kasapinov, 2015; 6; 7). Furthermore, the quality of medical training in the region is in large part unable to meet EU medical training standards, as indicated by medical degrees from the region not always being recognised abroad<sup>44</sup>. Several countries have yet to fully implement state-level, centralised health information and communication systems (and those that are implemented could be further improved). These systems are vital to effectively supply health services and avoid duplication of services, especially cancer screening for which the current surveillance and response capacity is limited (European Commission, 2021d). The increased use of private healthcare providers by those who can afford it further signals discontent with public healthcare.

<sup>42</sup> Care that attempts to treat health problems before they arise or in earlier stages

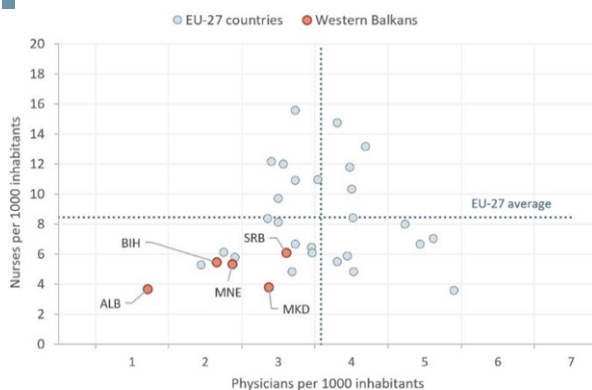
<sup>43</sup> In the case of North Macedonia, the privatisation of primary care services has led to a fragmented provision of primary healthcare, where primary healthcare is clustered in relatively higher-income high-population density areas of the country (WHO, 2019b)

<sup>44</sup> For instance, in 2019, Germany only recognised two thirds of Serbian medical degrees and fewer than half of Serbian nursing degrees, whilst only recognising half of North Macedonian medical degrees and less than one third of the nursing degrees (Schneider, Thiebaud, Abdul-Hamid, Arnhold, & Sondergaard, 2021)

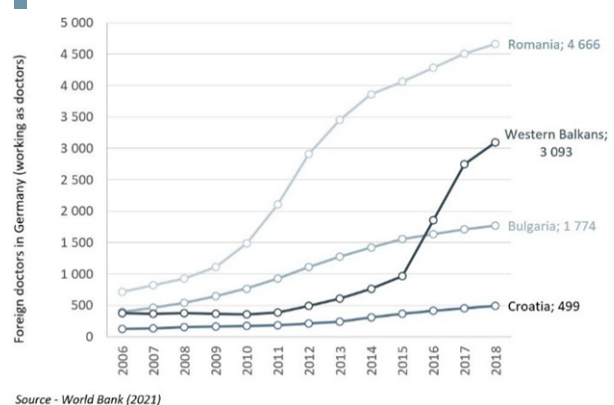
## Medical workforce: discouraged at home and moving abroad

**The emigration of health workers from the Western Balkans has been growing in recent years.** It is motivated by several factors such as higher salaries and better career opportunities abroad (including working with higher-skilled professionals and new medical technologies). While at home, they face poor working conditions and, in certain countries, high unemployment rates (Aliu, Bogdani, Marinovic, Mladjenovic, & Manasiev, 2019). As can be seen in Figure 28, Western Balkan countries have some of the lowest shares of nurses and physicians in the whole of Europe. Germany is the primary destination country for medical professionals due to favourable labour laws for non-EU health workers that were implemented to safeguard against labour shortages in the country's health sector (and thus ensure continuation of health service delivery), and more favourable wages and working conditions. The number of medical professionals emigrating to Germany has already been substantial in recent years (see Figure 29) and, if conditions in the region remain unchanged, the numbers are expected to increase further as Western Balkan countries come to join the EU.

**Figure 28 - Physicians and nurses in the Western Balkan region**



**Figure 29 - Doctors emigrating from Western Balkans and neighbouring countries to Germany**



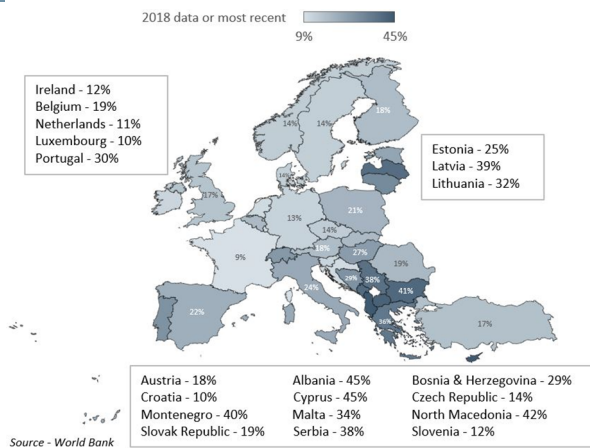
**The region's present labour market environment is likely to continue motivating medical professionals to move abroad.** For instance, in Serbia, the average duration of unemployment for doctors and nurses in 2019 was 25 months and 37 months, respectively (Schneider, Thiebaud, Abdul-Hamid, Arnhold, & Sondergaard, 2021). Additionally, medical positions in remote rural areas are difficult to fill and are not always appropriately incentivised for doctors (Schneider, Thiebaud, Abdul-Hamid, Arnhold, & Sondergaard, 2021). Unemployment is particularly high amongst recent medical school graduates, many of whom volunteer to work for free to ensure skills do not deteriorate, further motivating them to move abroad for paid positions. The limited job opportunities for health workers in the region may seem counterintuitive as the Western Balkan countries have some of the lowest numbers of doctors and nurses (per one thousand people) amongst the European countries; however, the shortage of employment opportunities for doctors and nurses will most likely persist due to limited fiscal space by governments (the public health sector being the largest employer of medical professionals in the region).

## Equity of healthcare: inequality in cost and access

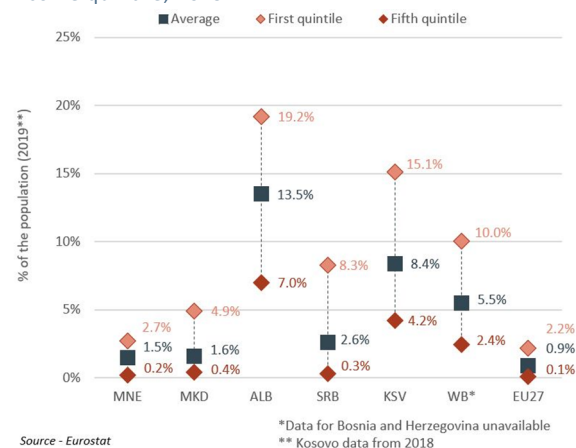
**Healthcare costs impose financial burdens on many people in the region, in particular those who are socio-economically disadvantaged.** In many Western Balkan countries, the share of out-of-pocket expenditure in current health expenditure is among the highest in Europe (see Figure 30), with a regional average of 39% in 2018, compared to the EU average of 22%. Since 2000, only in Albania and in Bosnia and Herzegovina has this share decreased (see Appendix Figure 15) - although Albania continues to have the second highest share in the whole of Europe - while in Serbia, the rate has increased from 29% (2000) to 38% (2018). High out-of-pocket costs tend to disproportionately affect lower-income individuals, who already tend to have poorer health outcomes and less access to quality health services (and who may be forced to forgo paying for

healthcare so as not to sacrifice the consumption of other necessary goods such as housing, food, and schooling) (World Bank, 2017b; OECD, 2019b). High out-of-pocket expenditure may be pushing some individuals below the poverty line, further exposing socio-economic vulnerabilities in the region (Bredenkamp, Mendola, & Gragnolati, 2011; World Bank, 2017b). In 2019, approximately 10% of those in the bottom income quintile in the region reported having unmet medical needs as they were deemed too expensive, and the figures were as high as 19% and 15% in Albania and Kosovo respectively, compared to just 0.7% for the equivalent income group in the EU (see Figure 31).

**Figure 30 - Out-of-pocket expenditure in Europe, 2018**



**Figure 31 - Unmet medical needs due to high costs, by income quintile, 2019**



**Lower-income individuals were less likely to have access to quality medical goods and services, further widening healthcare inequalities.** In most of the region's countries, a clear dichotomy exists between private and public healthcare systems. The better off are able to pay for private healthcare alternatives, which in contrast to public alternatives have shorter waiting times for specialised services, higher quality doctors and equipment, and overall better outpatient care and health outcomes (Lai, Stachenko, Milevska-Kostova, Ristovska, & Spiroski, 2015). Moreover, in Bosnia and Herzegovina, and Kosovo, social protection and public healthcare coverage is not universal, limiting access to essential services for low-income groups (European Commission, 2020b; European Commission, 2020c). In general, those in the bottom income quintile were more likely to report costs, distance, or waiting times as the reason for having unmet medical needs (see Appendix Table 2).

**Women, in particular, are challenged by the inadequate availability of health services.** For instance, women's access to prenatal (or antenatal) care was lower for the poorest income quintiles in Albania<sup>45</sup> and Montenegro (see Appendix Figure 16). In 2018, women from lower-income quintiles in Albania were also more likely to report having problems accessing healthcare due to distance, availability of female doctors, or affordability (45% of women from the bottom income quintile reported difficulty obtaining funds for health services). Additionally, the low level of formal caregiving available for the elderly or people with mental or physical disabilities in the region leads to a high share of informal caregiving being undertaken by family members, which disproportionately falls on women (Malkic & Numanovic, 2016; World Bank, 2017c; Mujanovic & Vracic, 2018). As a result, between 38% (Serbia) and nearly 78% (Kosovo) of women who are not active in the labour market cite home care responsibilities as a primary cause (see Figure 32); additionally, informal caregiving can expose the home caregiver to an increased risk of poverty and harm their mental health (OECD, 2019c).

<sup>45</sup> Which also coincidentally has the highest maternal mortality rate in the Western Balkan region.

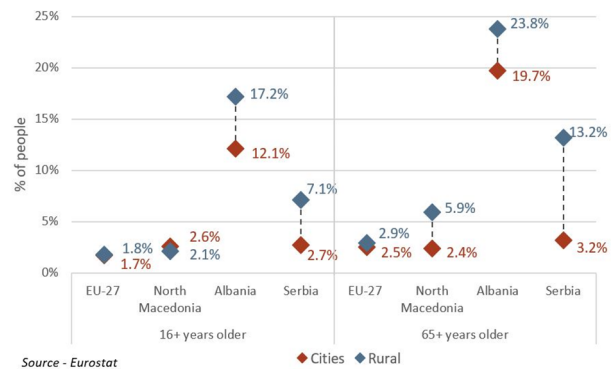


**Figure 32 - Inactivity due to care responsibility, 2016**



Source - LITS III, CEB staff calculations

**Figure 33 - Unmet medical needs by age cohort and urban/rural area, 2019**



Source - Eurostat

**Rural communities, older individuals, and marginalised groups are exposed to increased health vulnerabilities due to exclusion from quality healthcare.** Rural and remote communities are hit with the dual challenges of typically having higher poverty rates and often having fewer healthcare options. In some Western Balkan countries, rural communities face a shortage of medical professionals, health centres, and modern medical equipment; in the case of Albania, this was a cited reason for out-migration from rural to urban areas (World Bank, 2019a). Eurostat data in 2019 showed that, in Albania and Serbia, 17% and 7% of the rural populations respectively reported having unmet medical needs, compared to their urban counterparts, 12% in Albania<sup>46</sup> and 3% in Serbia (see Figure 33). Data shows that these rates tend to increase for elderly groups (aged 65 years or older) in rural areas, highlighting the clear need for increased health policy attention for this age cohort. Additionally, marginalised groups such as Roma were less likely to have medical coverage and access to health centres, and were more likely to suffer from infectious diseases (World Bank, 2019a; European Commission, 2020c; World Bank, 2016; WHO, 2019b; Nikoloski & Marnie, 2018). Other marginalised groups such as people with disabilities, victims of domestic violence, and the lesbian, gay, bisexual, transgender, and intersex (LGBTI) populations also suffered from inadequate healthcare due to discrimination or lack of appropriate policies, showing the lack of inclusivity of the regions' medical systems (World Bank, 2018c; World Bank, 2019c; UNICEF, 2018).

## Info Box 6 – Public health sector response to the pandemic

Initially, the COVID-19 pandemic has affected all Western Balkan countries in a moderately similar fashion, and the first wave was relatively mild compared to EU countries, followed by two larger peaks of confirmed cases in the fall of 2020 and early spring of 2021 (Ritchie, et al., 2021). Bosnia and Herzegovina has the highest relative number of confirmed deaths, with 3172 deaths per million people as of September 22nd 2021 (almost three times more than Germany, 1109 people (Ritchie, et al., 2021). The underinvestment in health systems during the previous decades is believed to have left the region unprepared for the pandemic (Bieber, et al., 2020). Quality of care suffered due to the large influx of patients, and the majority of existing capacities were redirected towards emergency response activities (WHO North Macedonia; IMF Kosovo). This caused disruptions in the delivery of essential health services in some of the region's hospitals during the initial months of the pandemic, with similar disruptions recurring during the subsequent second and third waves that hit the region (Tahirukaj, Koryak, Humolli, Rexhepi, & Tille, 2021; Tahirukaj, et al., 2021; Gjermani & Lika, 2021).

<sup>46</sup> In Albanian rural areas, the rate of unmet medical needs due to expense, distance, or waiting times has increased from 14.8% in 2017; in Albanian cities the rate ticked up slightly in 2019 from 11.2% in 2017, but remains below the 2018 level of 12.8%.

The pandemic has placed considerable strain on public finances as governments expanded budgets to accommodate a variety of COVID-19 support measures in healthcare and social security support. For example, Serbia increased capital investment to 1.7% of GDP to invest in essential infrastructure to respond to Covid-19, such as healthcare facilities (IMF, 2021). Additionally, the region received over €3.3 billion in support from the EU and the EIB via the Zagreb Declaration. Moreover, the EU permitted the Western Balkan countries to join the Joint Procurement Agreement for medical countermeasures. Furthermore, except for Serbia, all Western Balkan countries made use of the IMF Rapid Financing Instruments (IMF, 2020b). The CEB also provided immediate and targeted financial support to the region, for instance via a €200 million loan to Serbia to finance emergency health expenditures.

The resurgence of the pandemic (including variants) combined with a slower vaccine roll-out continues to present risks for the region's health systems and the adverse effects of the pandemic will most likely endure longer in the Western Balkans compared to the EU. On September 22<sup>nd</sup> 2021, the most recent available data showed that 66% of the EU population had received at least one dose of a vaccine; the same figure stands at 44% in Serbia, 37% in Montenegro and in North Macedonia, 32% in Albania, and only 19% in Bosnia and Herzegovina (Ritchie, et al., 2021). The strain of the pandemic on the delivery of both essential and non-essential services is widening gaps in the provision and funding of healthcare. As the region's healthcare systems were already underfunded, the long-term fiscal consequences may limit much needed investment in hospital equipment, information systems, medical education, and preventive care that are important to improve the quality of the region's healthcare systems.

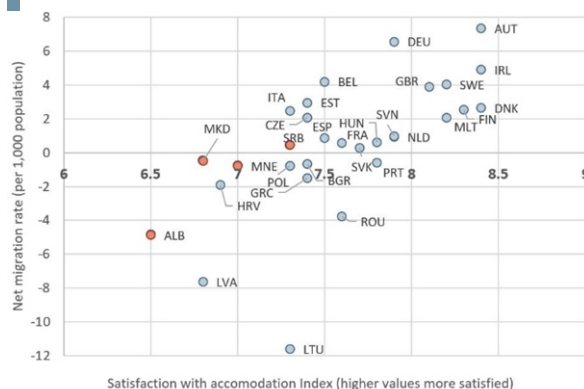
## CHAPTER 5 – THE COST AND QUALITY OF HOUSING

### *Reinforcing socio-economic inequalities*

**Poor and costly housing in the Western Balkans is contributing to exacerbating inequalities and limiting the human capital potential of the region.** Housing costs are placing increased pressure on households' already limited incomes, especially for lower-income households. Housing inequalities create a situation where lower-income households may forgo other investments (e.g. education) and have limited capacity to generate inter-generational benefits from homeownership (capital and knowledge transfers<sup>47</sup>). Moreover, some groups in the region, namely the young, women and minorities, face additional obstacles that impede entry to the housing market, further challenging their capacity to build a quality life. Importantly, the region's extremely low quality of existing housing may generate sizable adverse human capital effects. Many households, particularly low-income ones, report high rates of overcrowding, poor insulation, and energy poverty, which may create environments where education attainment potential is hindered, and there is a heightened risk of certain diseases and illnesses, which in turn may be placing further strain on existing education and health systems.

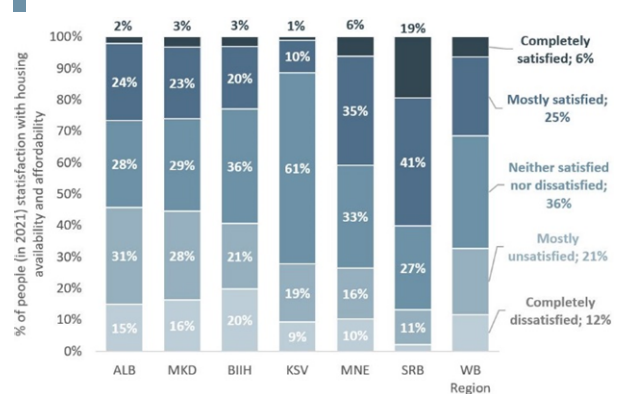
**Housing issues in the Western Balkans underscore the wider social and economic problems that contribute to outward migration.** Housing inequality in the region often echoes the greater socio-economic difficulties within the countries, as individuals' inability to find jobs and adequate wages limits their opportunities to save or access financing to obtain decent housing. The inability to afford and find quality housing has also become an increasingly cited rationale among many as to why they are leaving the region, as it prevents their ability to improve the quality of life for their families (CoR, 2018; Esch, Palm, Brey, & Hagemann, 2020). While only a correlation, Figure 34 below shows that countries with generally lower housing satisfaction tend to have increased negative net migration figures; further research and work will be needed to examine the relationship between housing and emigration, as housing is often a symptom of the socio-economic climate driving emigration. The remainder of this chapter will focus more on the current housing market and its connection to socio-economic inequalities and human capital development.

**Figure 34 - Net migration and satisfaction with housing, 2017**



Source - UN DESA, EuroFund: EQLS

**Figure 35 - Satisfaction with housing availability and affordability, 2020**



Source - Balkan Barometer (CEB staff calculations of % net of non-respondents)

**Current housing issues in the region are a legacy of historical housing policies and a consequence of past and current economic conditions.** In the 1990s, the Western Balkan countries, as in most post-communist European states, began the process of privatising their publicly provided housing stock. The occupants of public housing (often in multi-dwelling housing blocks) were able to obtain private ownership rights at a heavily discounted price. As a result, the majority of the region's households own their homes, ranging from 84% of all households in Serbia to 96% in Albania in 2018, according to Eurostat data. However, the

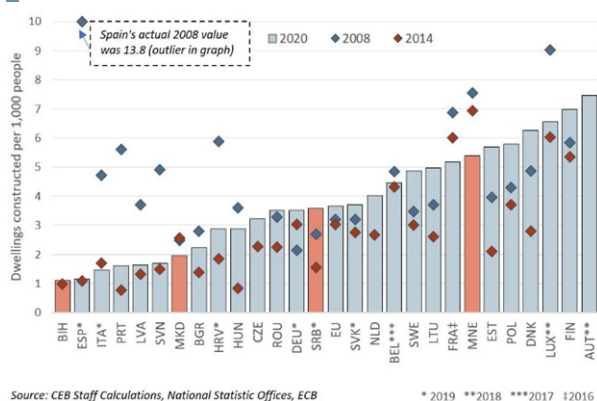
<sup>47</sup> Primarily this includes capital derived from existing familial homeownership, funding support (either outright or via credit), and knowledge about housing markets.

economic prospects for many of these homeowners were mixed, with the regions' countries seeing subdued employment and wage growth opportunities, limiting their capacity to maintain and invest in improvements to their homes. On top of this, despite the overall low energy prices in the Western Balkans compared to EU levels, utility prices have been gradually increasing during the last decade in most of the region's countries, which has placed further financial strain on the ability to support housing upkeep costs. Against this backdrop, challenges of the housing market persist today, with a third of people in the region reporting that they are either completely or mostly dissatisfied with the availability and affordability of housing (see Figure 35 above).

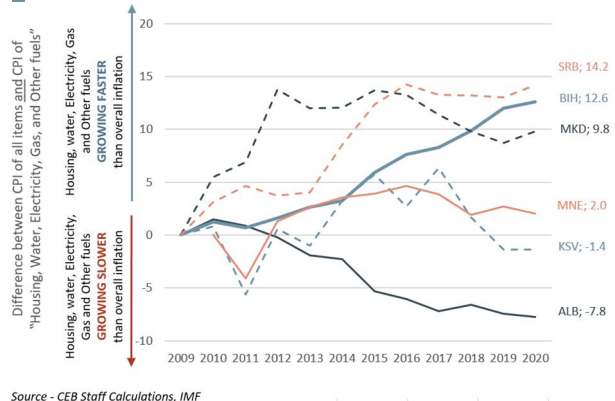
## The region's housing market: a snapshot of quantity and prices

**The provision of and investment in housing gives a mixed picture in the region, with some countries underproviding housing options to people.** For instance, in 2020, the number of housing units built per one thousand people was high in Montenegro relative to most European countries but lower than the 2008 peaks the country achieved before the global financial crisis, GFC (see Figure 36). Serbia's dwelling construction rate in 2020 was on a par with the overall average EU level and has been recovering from a dip following the GFC between 2013 and 2015. On the other hand, in Bosnia and Herzegovina and in North Macedonia, housing construction levels are among the lowest in Europe; although these rates have been recently recovering for both countries, in North Macedonia it appears to have been particularly difficult with only 1.96 units built per one thousand people in 2020, as opposed to 2.6 in 2014. A potential underinvestment in housing is reflected by the gross fixed capital formation (GFCF) levels for dwellings (residential housing) both in Bosnia and Herzegovina and in Macedonia, where GFCF levels have remained below their 2000 levels in recent years, and below EU-levels (see Appendix Figure 17). The GFCF trends for Serbia closely reflect the country's housing-built rate, which showed a substantial uptick in housing investment around 2016. High housing costs, and the burden it places on households, are often associated with those countries where the supply of housing is limited (Inchauste, Karver, Kim, & Jelil, 2018). Moreover, the region has an imperfect rental market, limiting the housing options for individuals seeking to access affordable housing options (Bartlett W., 2008).

**Figure 36 - Housing units constructed per 1,000 people, 2020 or most recent data**



**Figure 37 - Index difference of overall inflation and housing related inflation**



**Housing and related expenses have been growing in many of the region's countries.** Since 2009, housing-related inflation<sup>48</sup> has been consistently higher than overall inflation in four of the region's countries (Serbia, Bosnia and Herzegovina, North Macedonia, and Montenegro<sup>49</sup>) – see Figure 37. In Kosovo, overall inflation has been higher than housing-related inflation since 2019 (the first time since 2013), while in Albania, overall inflation has been consistently higher year on year since 2012. The average price per square meter in a newly

<sup>48</sup> This refers to the CPI Index sub-component of "Housing, water, electricity, gas, and other fuels".

<sup>49</sup> In the case of Montenegro, the difference has been narrowing since 2016.

constructed home<sup>50</sup> has also seen substantial increases in price in the last decade and a half, despite volatility during the 2008 financial crisis. For instance, in North Macedonia, between 2005 and 2019, the average nominal price per square meter increased by 37%, or roughly 2.3% annually. And in Serbia, between 2003 and 2018, there was an almost uninterrupted increase (bar in 2012), with average prices tripling, and an annual nominal growth rate of 7.4%. Within Serbia, the highest prices for meterage in dwellings remain concentrated in highly urban areas such as Belgrade, Novi Sad, Niš, but some of the highest changes in prices since 2011 have been seen in district administrative cities such as Čačak, Vršac, Smederevo, pointing to a broader picture of increasing housing prices throughout the country. In Bosnia and Herzegovina the nominal price of a square meter has been more volatile, with an overall nominal increase of 12.6% between 2007 and 2019, whereas in Montenegro, nominal prices were only 2.4% higher in 2019 than they were in 2006, after reaching peaks in 2008; however, prices in Montenegro's coastal region are the highest in the country.

## Housing inequality: the cost and quality of housing in the region

**Real wage growth has been relatively low in the region, which has contributed to large housing cost overburden rates<sup>51</sup> throughout the region, especially for lower-income households.** Real monthly wage growth in Bosnia and Herzegovina and in North Macedonia has increased by roughly 14% and 16%, respectively, since 2009, but real wages contracted in the immediate years following the 2008 financial crisis, and the majority of the wage recovery in both countries occurred between 2015 and 2020<sup>52</sup>. In Montenegro and Serbia, real monthly wages were roughly 3.4% and 2.6% lower in 2020 than in 2009. In all of these countries, housing-related expenses have placed considerable pressure on limited household budgets. In Serbia and Montenegro, the housing cost overburden rate stood at 21.6% and 11.7% respectively, in 2019, above the EU average of 9.4% (see Figure 38 below). However, when examining the housing cost overburden rate for those in the lowest income quintile, a starker picture emerges in which all countries for which data is available have cost overburden rates well above the EU average, except Albania (see Figure 38); Serbia, in particular, has a cost overburden rate of nearly 67% for the lowest quintile.

**Despite a large share of households owning their homes, the financial burden of maintaining and covering costs related to housing is exceptionally high in the Western Balkans.** The historic transfer of housing assets after the end of the socialist era combined with housing model systems that place great importance on homeownership has resulted in a high level of homeownership, without a mortgage, in all Western Balkan states; from a low of 82% of all households in Serbia, to a high of nearly 96% in Albania in 2019 – see Appendix Figure 18. However, many households<sup>53</sup> find it difficult to meet the financial costs of owning a home, partly due to limited high wage jobs and lack of wage growth in some of the region's countries. In 2019, the Western Balkan weighted average of the percentage of households that experienced a heavy financial burden from home costs<sup>54</sup> stood at roughly 51%, higher than the 28% in the EU – see Appendix Figure 19. The rate increases when examining those earning less than 60% of the median income (those in relative poverty), 71% of whom experienced a heavy financial burden, compared to 47% in the EU for the same group. The between-country differences are wide in the Western Balkans, with nearly 80% of those in

<sup>50</sup> All calculations for this data point were made by CEB staff utilising data made available by respective national statistical offices.

<sup>51</sup> When households spend more than 40% of disposable income on housing.

<sup>52</sup> Monthly wage growth increased the most between 2019 and 2020 in both countries.

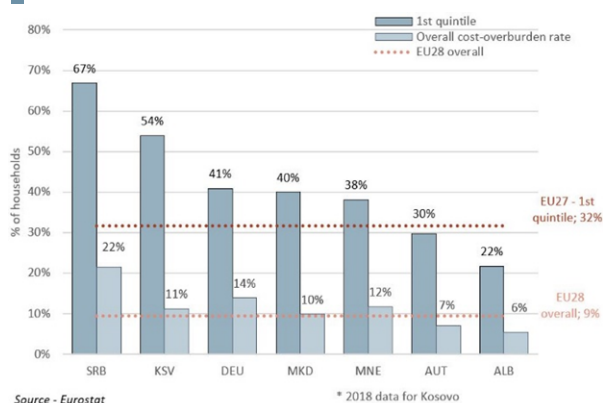
<sup>53</sup> Many older homeowners today held relatively high-paying state-level jobs which guaranteed them access to affordable housing. Those socialist-era housing allotments were transferred to them as private property in the 1990s, but public jobs wage opportunities began to erode for many and in turn limited their disposable income to maintain their homes.

<sup>54</sup> As defined by Eurostat - *"The financial burden of the total housing cost refers to the percentage of persons in the total population living in a dwelling where housing costs, including mortgage repayment (instalment and interest) or rent, insurance and service charges (sewage removal, refuse removal, regular maintenance, repairs and other charges), consist a financial burden"*.

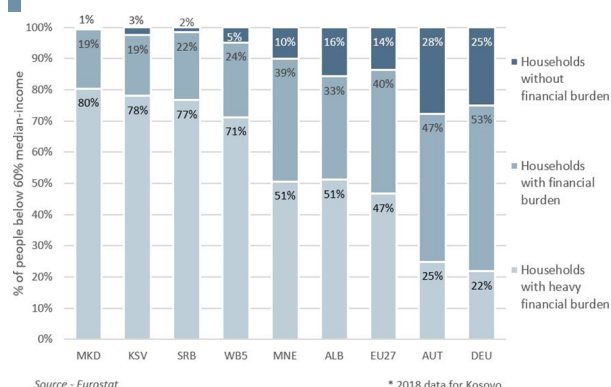


relative poverty in North Macedonia experiencing a heavy financial burden from housing, compared to a regional low of 51% in Albania and Montenegro – see Figure 39 below.

**Figure 38 - Housing cost-overburden rates, 2019**



**Figure 39 - Financial burden of housing for those living in relative poverty<sup>55</sup>, 2019**



**The energy efficiency of housing is low in the region, which further exacerbates housing cost pressures.**

The inability of households to cover the costs of maintaining and investing in improvements to their homes has resulted in many homes being highly energy inefficient (in part a legacy of a large stock of ageing socialist-era housing that was poorly insulated). In 2019, a population weighted average of 20.5% of the region's population reported having a home that suffers from poor isolation, leaks, damp walls or rotten window frames and doors, as opposed to the EU rate of 12.7%; the figure for the Western Balkan region increases to 32% for those who are in relative poverty<sup>55</sup>. Evidence points to the fact that the ubiquitous number of multi-apartment buildings, particularly, have been poorly maintained and are highly energy inefficient, thereby creating a considerable need for investments in energy efficiency renovations of existing building stock (USAID, 2021; CEB, 2019). Many owners cannot afford to pay their utility bills because the energy inefficiency of buildings in part results in high utility costs. The regions' countries see very high levels of energy poverty<sup>56</sup>, with a regional population weighted average of 22% of people unable to keep their homes warm (those in relative poverty have seen this figure increase to 35%) – see Figure 40. The highest level of arrears related to housing expenses concern utility bills (Eurostat, 2021), especially for those in relative poverty, where a regional population weighted average of 51% report being behind in their utility payments, in 2019.

**Overall, the quality of housing in the region exacerbates socio-economic inequalities and contributes to poor health and education outcomes.** The sub-optimal condition of housing and the inability to afford quality home options leads to greater socio-economic challenges. In 2019, the overall levels of severe material and social deprivation<sup>57</sup> in the region were among the highest in Europe (see Appendix Figure 20). Simultaneously, Western Balkan countries also observed some of the highest housing-related cost pressures. For instance, the high rate of energy poverty may also generate socially sub-optimal conditions for many people, who may be forced to make a choice between heating their home and purchasing other goods (such as food, medicine, etc.). Moreover, the region also faces extremely high housing overcrowding rates<sup>58</sup>, with a regional population weighted average of nearly 55%, compared to the EU rate of just 17.1%

<sup>55</sup> Defined as those earning below 60% of the median income.

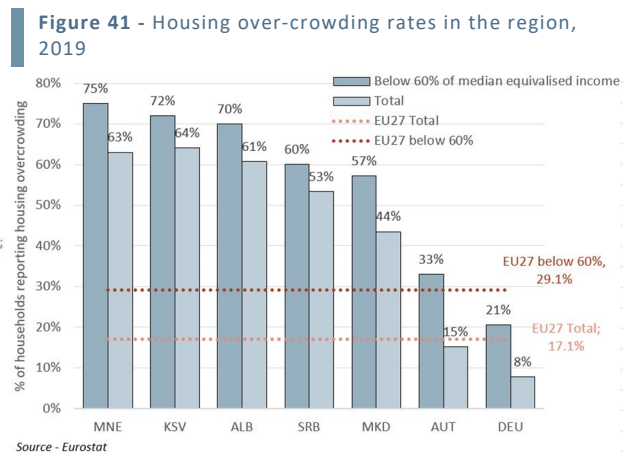
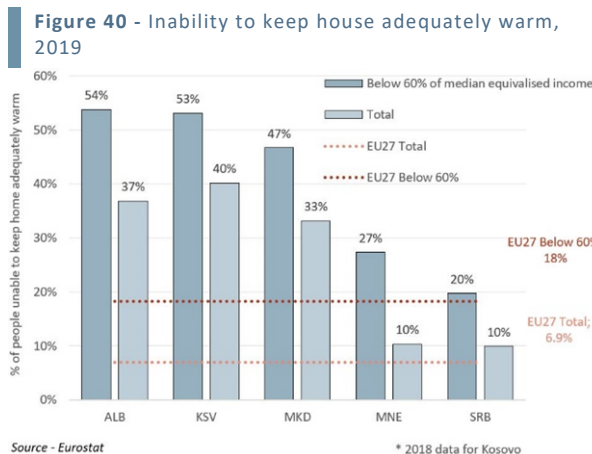
<sup>56</sup> There is no universally accepted definition for energy poverty; this paper uses the variable “% of people unable to keep their homes adequately warm” as an indicator to measure energy poverty (one of the most common definitions).

<sup>57</sup> As defined by Eurostat, this indicator measures the ability of households that cannot afford a number of goods and services considered necessary to lead an adequate life.

<sup>58</sup> As defined by Eurostat, “A person is considered as living in an overcrowded household if the household does not have at its disposal a minimum number of rooms equal to: one room for the household; one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room for each single person between 12 and 17 years of age and not included in the previous category; one room per pair of children under 12 years of age”.



(in 2019), the rate in the region increased to 64% for those in relative poverty, while in the EU the figure stood at 29.1% – see Figure 41. Furthermore, 27% of overcrowded homes in the region also suffer from leaking roofs, no indoor toilet/shower or insufficient indoor lighting, increasing the strain of severe housing deprivation. Such issues exacerbate human capital development issues, especially for low-income households. Children and adults in education will have a more challenging time learning in an overcrowded home with limited study space, which can be worsened if the home cannot be heated or suffers from severe deprivation. Moreover, the poor insulation or dampness of the homes in the region, as described in the previous paragraph, heighten the prevalence of health issues for the inhabitants (especially respiratory diseases), worsening individual health outcomes and increasing pressure on health systems.



## Housing access issues: the effect on different population groups

**Housing access is a particular challenge to specific population groups in the Western Balkans.** This section will briefly highlight a selection of issues that certain vulnerable groups face in accessing the housing market. The groups include (1) youth, (2) women, (3) low-income individuals who qualify for social housing, (4) ethnic and social minorities and (5) the homeless. This section is far from exhaustive but emphasises the housing policy issues that would benefit from increased attention.

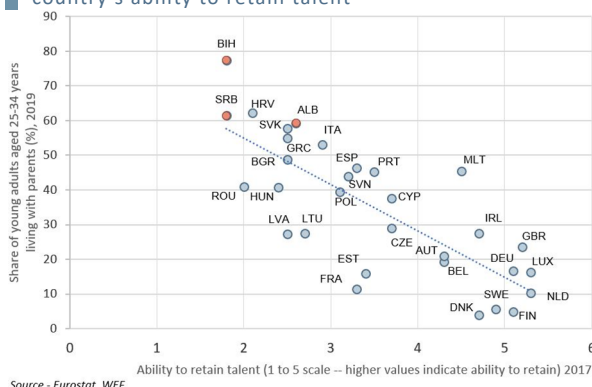
**Young people throughout Europe face the challenge of obtaining affordable housing and, in the Western Balkans, it threatens to limit their social mobility and prospects for building a high quality of life.** Research in the context of the EU has shown that younger people have increasingly been priced out of the housing markets in urban centres with high employment and productivity rates. In turn, this may limit young people's intergenerational mobility prospects by their not being able to afford to live where there are the best career and capital formation (homeownership) opportunities (Inchauste, Karver, Kim, & Jelil, 2018). Data from the Western Balkan region is limited, but what is observed is that younger individuals (aged 20 to 29) tend to see slightly higher values of housing cost overburden and overcrowding rates. Moreover, Bosnia and Herzegovina and Serbia have the highest rate of young people (aged 25 to 34) in Europe who live with their parents. The high rate of homeownership in the region and a limited rental market constricts young people's housing options<sup>59</sup>. As can be seen in Figure 42 below, in countries where the share of young adults who remain with their parents is high, there is often a correlation with a country's ability to retain talent. While there may not be a direct link between the ability to move out of a parent's home and emigration, it certainly shows that the dire economic prospects of the young in the region (high youth unemployment and limited wage growth opportunities) limit their ability to choose how and when they want to build independent lives. Thus, while emigration abroad will not guarantee better housing, the more plentiful job opportunities and supportive social infrastructure may give young people a better chance to afford quality housing options.

<sup>59</sup> Familial/Cultural dynamic differences may also contribute to staying at home longer.

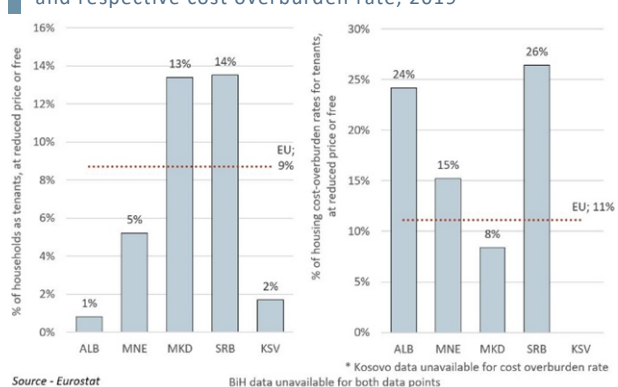
**Women perform slightly worse than men in many indicators in the region, such as in the financial burden and quality of housing.** The Western Balkans have some of the lowest female labour force participation rates in Europe, and a sizeable portion of women are unable to achieve financial independence (World Bank, 2017c)<sup>60</sup>. In some countries, women may face cultural obstacles that do not entitle them to the same inheritance norms as men, and even if they have the legal entitlement, such rules are not always enforced in all countries (Joireman, 2015). In some countries, the economic and social circumstances render many women dependent on their spouse or male family members for housing. In Montenegro, women own 4% of houses, 8% of land and 14% of holiday homes (World Bank, 2016). In North Macedonia, women own, on average, 16% of land, whilst in Bosnia and Herzegovina, 15% of homes are owned by women (Duhacek, Brankovic, & Mirazic, 2019). The lack of gender equality in accessing the housing market can also place women in more economically and socially vulnerable positions, for instance, making it more difficult to leave abusive relationships<sup>61</sup>. Moreover, the limited access to the housing market for half of the population is an additional factor on an already long list of issues limiting women’s capabilities to enhance their professional and personal wellbeing, which in turn restricts their potential for growth and capacity to contribute more to the economic development of the regions’ countries.

**Social housing systems for the most vulnerable are not fully developed, and considerable supply issues remain.** Social housing has not been at the forefront of the policy priorities in many of the regions’ countries. In recent years, due to increasing social housing needs, countries have been working to develop more advanced rules regarding who qualifies for social housing, regulations concerning how social housing is administered, and construction target numbers. For instance, in the entity of the Republika Srpska in Bosnia and Herzegovina, the 2019 adopted “Law on Social Housing” aims to finance 200-300 social housing apartments annually for three years - primarily via the Regional Housing Programme administered by the CEB (Obradovic, 2019). Montenegro set a target to complete five thousand social housing units by the end of 2020 (Kaluderovic & Durovic, 2019). In Serbia, social housing laws allow certain qualifying households to access housing at reduced prices and special contract conditions (Stokic & Bajec, 2019). However, the scope, coverage, and access to social housing are unclear as data and monitoring systems remain underdeveloped (Kaluderovic & Durovic, 2019; Jorgoni, 2019; Stokic & Bajec, 2019). Figure 43 shows that in Albania, Montenegro and Serbia, those who qualify for reduced or free rent (a proxy for a sub-set of potential social housing recipients) often continue to face high cost overburden rates relative to average EU levels. The demand for social housing in the region continues to be a critical issue; in Albania, in 2018, only 12.8% of those who applied for the social housing programme were allocated a home (Jorgoni, 2019). In Kosovo, over 3,100 families had active applications for social housing in 2020, while between 2003 and 2018, a total of only 1,178 housing units were built (Prishtina Insight, 2021).

**Figure 42 - Share of young adults living at home and a country’s ability to retain talent**



**Figure 43 - Share of population living in subsidised housing and respective cost overburden rate, 2019**



<sup>60</sup> Women are the main contributors to unpaid domestic work, often carrying large child and elderly care responsibilities (World Bank, 2017c).

<sup>61</sup> All countries in the region have women’s shelters to support women facing gender-based violence; however, the shelters do not yet meet the minimum standards set in the Council of Europe’s Istanbul Convention and many suffer from lack of funding (Tadić, Anđelković, & Vrbaški, 2018).

**Regional housing policies often overlook minority groups and the homeless, a fact that limits housing inclusivity.** For instance, Roma in the region often face aggravated housing issues due to their precarious economic and social conditions. Roma households are often considerably larger (typically 40% to 60% of Roma households have four or more members, whereas for non-Roma households the figure is slightly below 20%) and have higher overcrowding rates (three times the national average). This, in turn, can increase potential housing-related costs, such as utility bills – even though fewer Roma homes are connected to electricity. Another group that faces challenges and stigmatisation in the housing market are members of the LGBTI community. Members of sexual and gender minorities were considerably more likely to face rejections when renting or buying a home and were less likely to benefit from access to social housing, in violation of laws that guarantee access regardless of sexual identity (Koehler, Harley, Menzies, Senderayi, & Karadzic, 2018; ILGA-Europe, 2019c; World Bank, 2018c). Finally, homelessness is often not a policy priority in many countries' housing programmes. While, in some countries, homelessness support measures are in place, they are often limited in scope and, in many cases, the homeless are unaware of their existence (Petrović & Timotijević, 2013). In Serbia, only 8% of local communities were able to provide emergency shelter – despite an estimated twenty thousand people being homeless in the country (Bjelotomic, 2017; Stokic & Bajec, 2019). Eviction, which is among the leading causes of homelessness for families, has increased homelessness figures in some countries; however, laws governing social housing are intended to curtail forced eviction (Amnesty International, 2016; Jorgoni, 2019). While this study offers only a cursory review of housing issues concerning discriminated groups, it is clear that governments need to make substantial efforts to strengthen and adapt existing laws to ensure more inclusive housing systems.

## CONCLUSION – INVESTING MORE TOWARDS THE SOCIAL

**The Western Balkans social infrastructure does not sufficiently support the region's ability to develop and maintain a robust human capital base, particularly in the context of the outflow of human capital via brain drain.** For instance, most countries' education sectors face funding and resource shortages that result in sub-optimal education access and outcomes. Insufficient education outcomes, in turn, fail to provide the necessary skills that future generations need to meet the requirements of existing businesses and help develop new ones. The weak health infrastructure in the region is contributing to poor health outcomes for citizens, limiting their capacity to contribute to economic activity as people may exit the labour force prematurely due to ill-health. On top of this, the high cost of housing in the region constrains individuals' already limited budgets and, combined with the low quality of homes, can worsen education and health outcomes. These social infrastructure system shortfalls, alongside economic and governance issues, become another reason that motivates and pushes people to move abroad. In high emigrant destination countries, such as Germany and Austria, individuals can expect that schools, healthcare systems, and even housing options, will be developed to help them meet their full potential and provide for the future wellbeing of their families and children.

**Social infrastructure has not always been at the centre of Western Balkan countries' development and investment policies.** Typically, public investment priorities focus on traditional infrastructure projects such as roads, railways, and the energy sector, while much less attention has been placed on social sector human capital enhancing projects (namely in education and health). While limited fiscal space in many countries is partially an explanation, it is also under-emphasised in the long-term strategic planning of social sector investments (European Commission, 2021d)<sup>62</sup>. This subdued policy focus is reflected in the fact that public spending on education and healthcare often falls below EU spending averages<sup>63</sup>, and what is allocated has been assessed to be insufficient to meet policy agendas and goals. For instance, in Albania and North Macedonia, public spending on education is decreasing, and in the remaining countries, existing spending plans are often deemed inadequate to support strategies and reform programmes (European Commission, 2021f; European Commission, 2021g). As for healthcare, despite the significant uptick in spending during the Covid-19 crisis, most countries plan to normalise spending in the coming years, and plans are in place in only a few countries to increase long-term capital investments or improve health system efficiency (European Commission, 2021d). Importantly, countries will also need to improve investment management systems to ensure future social investments are implemented effectively; in some countries, capital investment projects in education and healthcare raise concerns about the quality of the completed projects.

**While funds from the European Union in the region have historically focused on supporting infrastructure and democratic reform programmes, the EU's Economic and Investment Plan for the Western Balkans signals that future funding will in part promote human capital development and help counter brain drain.** During the Instrument for Pre-Accession Assistance II (IPA II) implementation period, 2014-2020, much of the funding was allocated to projects that improved countries' democracy and governance, the rule of law, and economic growth and competitiveness. The EU's recent Economic and Investment Plan for the Western Balkans has now underscored the additional need for investment in human capital development, with the aim of increasing economic prospects, boosting innovation, and helping mitigate brain drain and its effects.

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<sup>62</sup> In some countries, such as Kosovo, and Bosnia and Herzegovina, there is the added issue of political grid-lock that makes investment strategies hard to plan and implement.

<sup>63</sup> Kosovo is an exception, with education spending levels equal to EU averages. However, the relative size of the student population in Kosovo is higher (ERP citation).

The plan advocated that a portion of IPA III, €14.16 billion, should focus on investing in projects that develop, reform, and strengthen the health and education systems in the region (among many other items)<sup>64</sup>, which signals increased recognition of the importance of social infrastructure.

**Improving the social infrastructure - in education, health, and housing - in the Western Balkans will require long-term policy planning. If done effectively, it will improve the region's economic prospects, provide increased opportunities, and enhance the quality of life for its citizens.** Investing in social infrastructure often requires large up-front investments, and final projects may not generate societal benefits for years into the future. However, if Western Balkan governments can place considerably more attention on supporting the development of their respective social sectors, with the backing of EU support funds, they will lay the foundations for improving their citizens' skills, health, and living conditions. In turn, this will help create a more productive economic system, spur innovative development, and improve everyday wellbeing. In turn, the region's economies will become more resilient and achieve improved economic growth and socio-economic outcomes for the widest number of people. This may eventually create the economic, social, and quality of life conditions that will induce fewer people to leave the region.

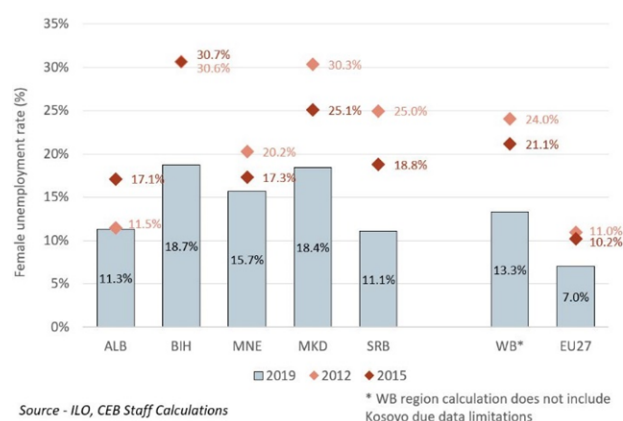
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<sup>64</sup> In particular for education, the plan calls to help ensure the sustainability of investment in the region to support the "Agenda for the Western Balkans on Innovation, Research, Education, Culture, Youth and Sport", which, among other things, will work to improve the quality of educational and training programmes and promote a more inclusive education system. In health, the plan advocates strengthening health insurance systems and improving the existing health system's resilience. The plan makes no mention of housing-related policies.

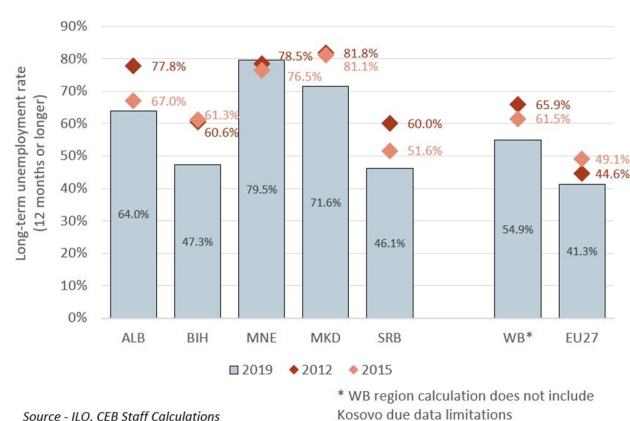
## APPENDIX 1 – CHAPTER SPECIFIC APPENDIX FIGURES AND TABLES

### Chapter 1

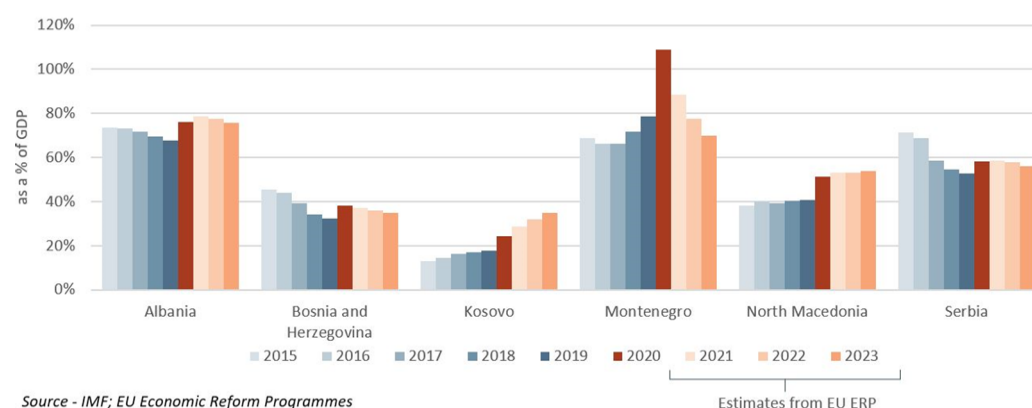
**Appendix Figure 1 – Female unemployment rate**



**Appendix Figure 2 – Long term unemployment rate, by country and region**

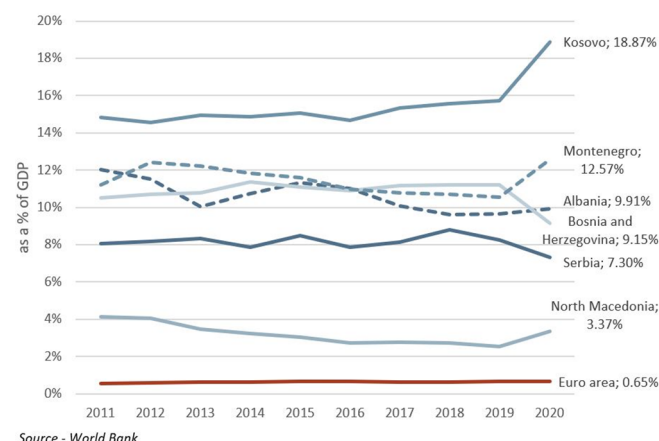


**Appendix Figure 3 – Gross public debt to GDP ratio**



### Chapter 2

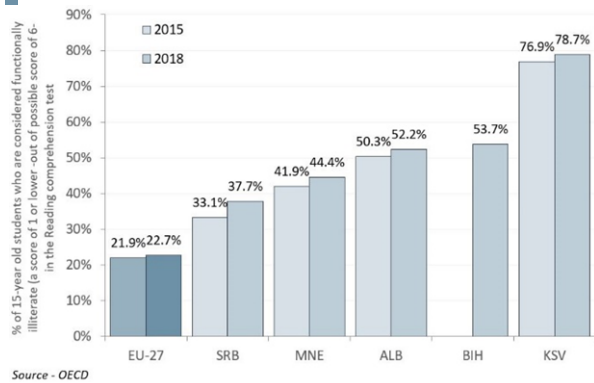
**Appendix Figure 4 – Remittance inflows as a % of GDP**



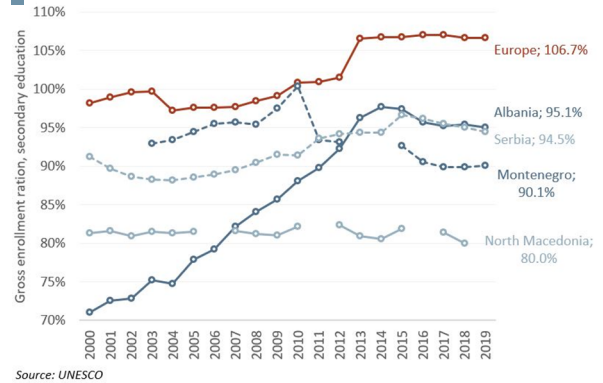


## Chapter 3

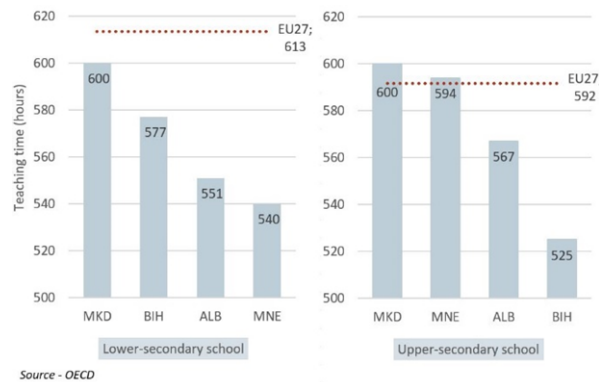
**Appendix Figure 5 - Functional illiteracy, 2015 and 2018**



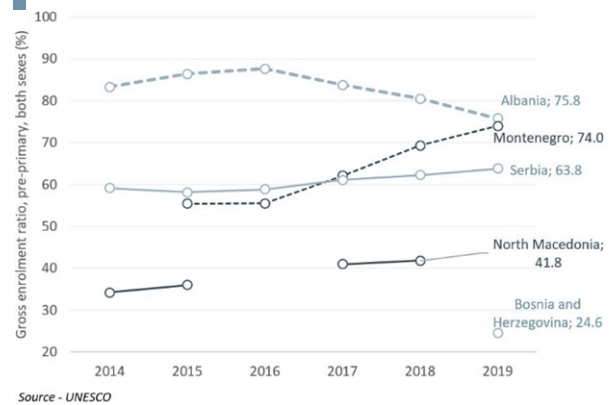
**Appendix Figure 6 – Secondary Education, gross enrolment ratio**



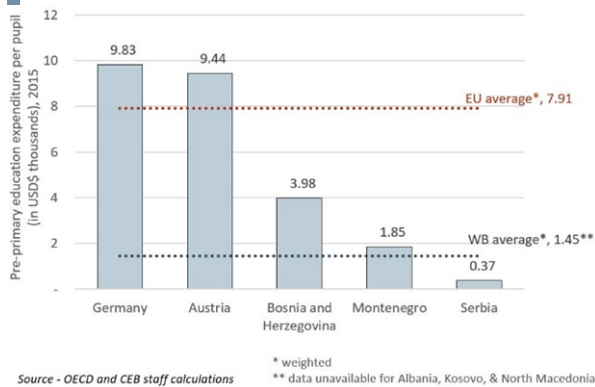
**Appendix Figure 7 - Teaching Time, lower secondary and upper secondary, 2018**



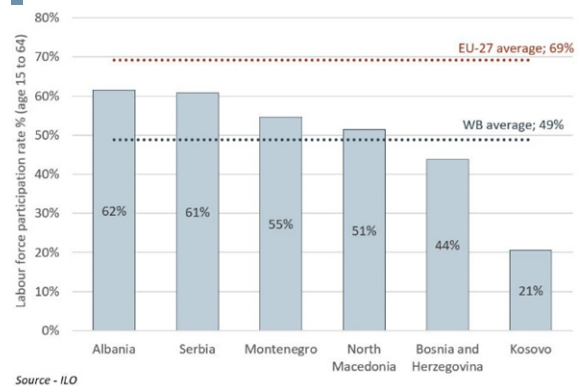
**Appendix Figure 8 - Pre-primary gross enrolment rate**



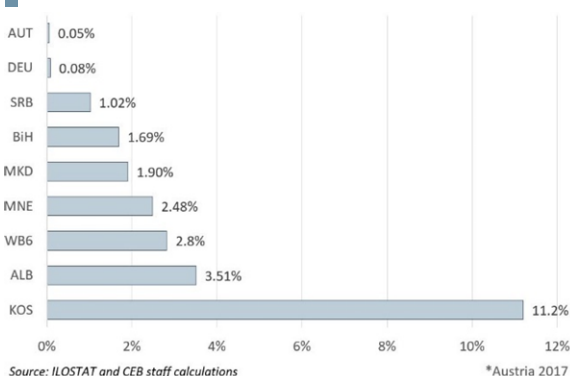
**Appendix Figure 9 - Pre-primary education expenditure per pupil, 2015**



**Appendix Figure 10 – Female labour force participation**



**Appendix Figure 11 – Discouraged job seekers, 2019\***



Appendix Table 1 - Selected OECD Education indicators by socioeconomic makeup of school

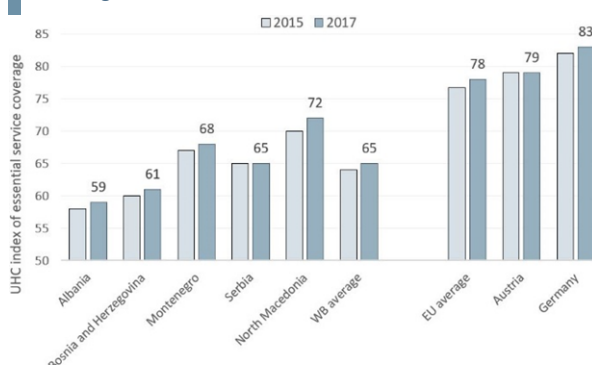
Country	% of students whose learning outcomes are hindered by lack of materials					% of uncertified teachers in education system					% of teachers that have the necessary technical and pedagogical skills to integrate digital devices instruction															
	Bottom quarter		Second quarter		Third quarter		Fourth quarter		Average		Bottom quarter		Second quarter		Third quarter		Fourth quarter		Average		% of all schools		Disadvantaged schools		Advantaged schools	
Bosnia and Herzegovina	Albania	53.8%	32.8%	42.2%	23.4%	38.1%		18.9%	20.8%	13.5%	20.7%	19.0%		89.3%	87.6%	92.2%										
		62.8%	64.8%	76.2%	49.9%	63.5%		6.5%	0.4%	2.0%	5.5%	3.6%		66.8%	71.9%	62.1%										
	Kosovo	92.1%	67.1%	81.3%	93.1%	83.4%		31.8%	15.9%	4.7%	20.4%		72.2%	64.6%	75.8%											
	Montenegro	29.6%	40.8%	29.9%	25.9%	31.0%		21.1%	1.4%	1.2%	16.5%	10.6%		75.6%	79.3%	70.3%										
North Macedonia		55.2%	50.0%	52.4%	34.3%	48.2%		32.1%	41.7%	45.8%	61.1%	47.0%		78.6%	79.5%	57.5%										
	Serbia	59.8%	47.5%	48.0%	42.3%	49.4%		24.4%	15.7%	28.6%	30.6%	24.3%		70.6%	63.0%	67.4%										
WB average		58.9%*	50.5%*	55.0%*	44.8%*	49.6%^		22.5%*	16.0%*	16.0%*	26.9%*	20.6%^		75.5%*	74.3%*	70.9%*										
European Union		31.2%*	30.5%*	28.1%*	24.0%*	28.1%^		11.2%*	8.8%*	8.2%*	7.4%*	7.8%^		66.2%*	64.1%*	69.7%*										

Ratio of school computers available to 15-year-olds (for educational purposes to the total number of students in the modal grade for 15-year-olds)

Country	Bottom quarter					Second quarter					Third quarter					Fourth quarter					Average					
	Bottom quarter					Second quarter					Third quarter					Fourth quarter										
Albania	32.8%					21.7%					27.7%					29.7%					27.8%					Bosnia and Herzegovina Kosovo
	27.8%					23.8%					28.4%					14.3%					23.6%					
	58.6%					42.9%					66.4%					57.7%					55.7%					
	10.4%					8.0%					7.3%					21.3%					11.7%					
Montenegro	26.4%					18.3%					25.5%					18.9%					22.1%					North Macedonia Serbia
	20.3%					12.7%					21.7%					10.6%					16.3%					
	29.4%*					21.2%*					29.5%*					25.4%*					26.2%*					
	1.95%*					1.77%*					1.89%*					1.47%*					1.78%*					
WB average	0.25*					0.28*					0.25*					0.28*					0.26*					European Union
	0.80*					0.88*					0.73*					0.71*					0.78*					

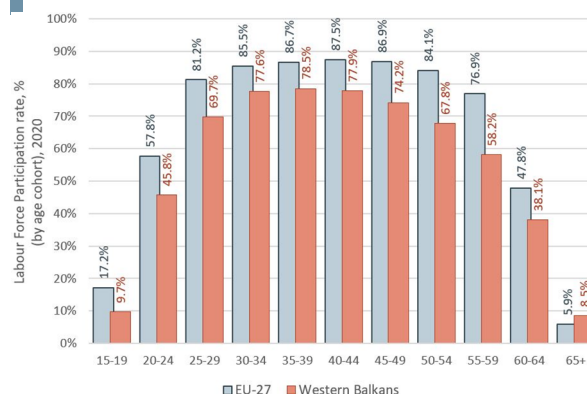
## Chapter 4

**Appendix Figure 12 – UHC index of essential service coverage**



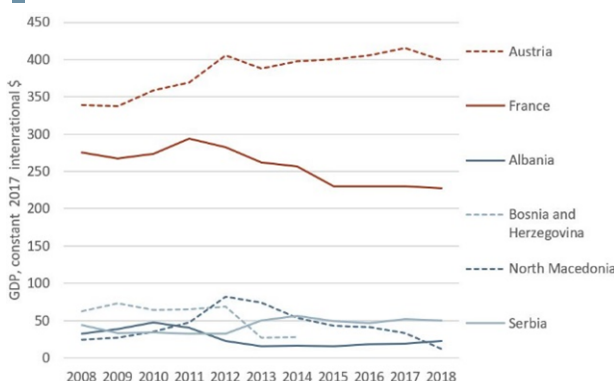
Source - WHO

**Appendix Figure 13 – Labour force participation by age cohort**



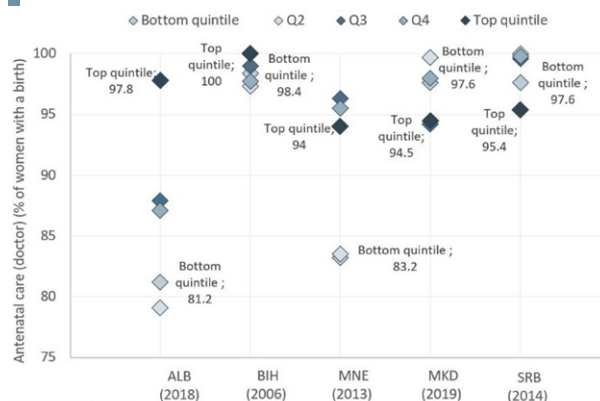
Source - ILO, CEB staff calculations

**Appendix Figure 14 – Gross fixed-capital formation in Health sector, per Capita**



Source: World Bank and CEB staff calculations

**Appendix Figure 15 – Antenatal care by country and income quintile**



Source: World Bank

**Appendix Table 2 – Unmet medical needs due to the following reasons (and by bottom and top income quintiles)**

Country	Waiting list (%)			Too far to travel (%)			Too expensive (%)		
	2019			2019			2019		
	Total	Quintile		Total	Quintile		Total	Quintile	
		Bottom	Top		Bottom	Top		Bottom	Top
Albania	0.70%	0.70%	0.50%	0.40%	0.80%	0.20%	13.50%	19.20%	7.00%
Bosnia and Herzegovina	-	-	-	-	-	-	-	-	-
Kosovo*	0.40%	0.10%	0.20%	1.00%	0.70%	1.00%	8.40%	-	-
Montenegro	1.40%	1.80%	0.80%	0.20%	0.60%	0.00%	1.50%	2.70%	0.20%
North Macedonia	0.70%	0.90%	0.40%	0.20%	0.20%	0.30%	1.60%	4.90%	0.40%
Serbia	1.40%	1.50%	1.00%	0.80%	2.30%	0.10%	2.60%	8.30%	0.30%
WB average	0.92%	1.00%	0.58%	0.52%	0.92%	0.32%	5.52%	8.78%	1.98%
EU-27	0.70%	0.80%	0.60%	0.10%	0.20%	0.00%	0.90%	2.20%	0.10%
Austria	0.10%	0.10%	0.00%	0.00%	0.00%	0.00%	0.20%	0.70%	0.00%
Germany	0.10%	0.20%	0.20%	0.00%	0.10%	0.00%	0.10%	0.50%	0.00%

Source - World Bank and CEB staff calculations

\*Kosovo data is for 2018

**Appendix Figure 16 – Out of Pocket Expenditure**



Source: WHO

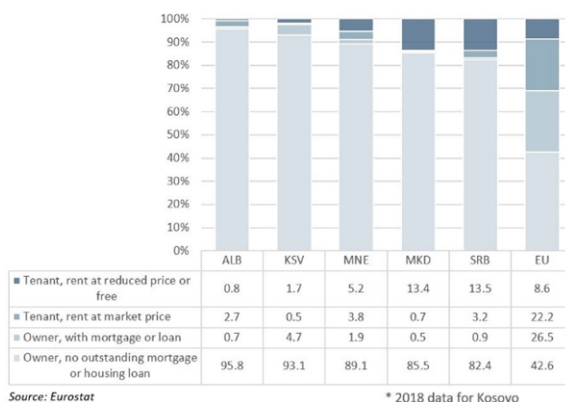
## Chapter 5

**Appendix Figure 17 – Gross fixed-capital formation in Housing sector, Index (2000=100)**



Source: CEB Staff calculations, Eurostat

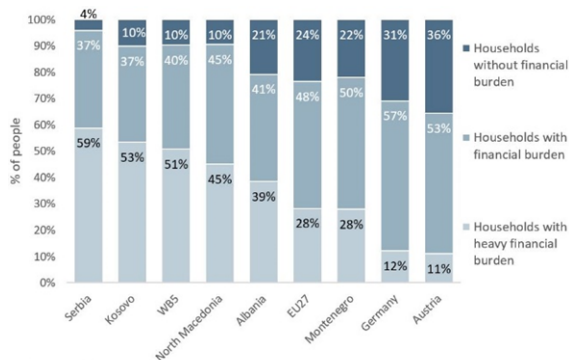
**Appendix Figure 18 – Housing by tenure type, 2018**



Source: Eurostat

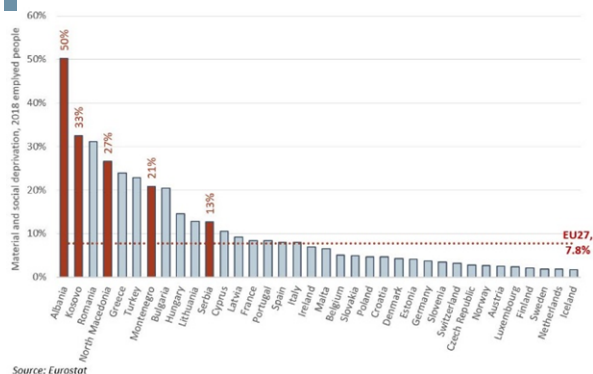
\* 2018 data for Kosovo

**Appendix Figure 19 – Financial burden of housing, 2018, % of total population**



Source: Eurostat

**Appendix Figure 20 - Material and social deprivation**



Source: Eurostat

## Appendix 2 – Methodology of Macroeconomic Skills Mismatches in the Western Balkans (Chapter 3)

This paper uses the following method to calculate the *macroeconomic skills mismatch* indicator, based on the methodology presented in the paper “Skills mismatch & Productivity in the EU” by the European Commission (2019):

$$\text{Skills mismatch indicator} = \sum_{i=L,M,H} \left| \frac{E_i}{E_t} - \frac{P_i}{P_t} \right| = \left| \frac{P_i}{P_t} (e_i - e_t) \right|$$

$i$  = qualification group B, I and A (Basic, Intermediate, Advanced)

$E_i$  = total employment of respective qualification group

$E_t$  = total employment

$P_i$  = working age population of respective qualification group

$P_t$  = total working age population

$e_i$  = employment rate of respective qualification group

$e_t$  = total employment rate

The indicator estimates the relative dispersion of employment rates across groups of the population with differing levels of education attainment. The three qualification groups used in this paper were: (1) Basic education, (2) Intermediate education and (3) Advanced Education. Data for employment and working age population (by education) was taken from the ILO database:

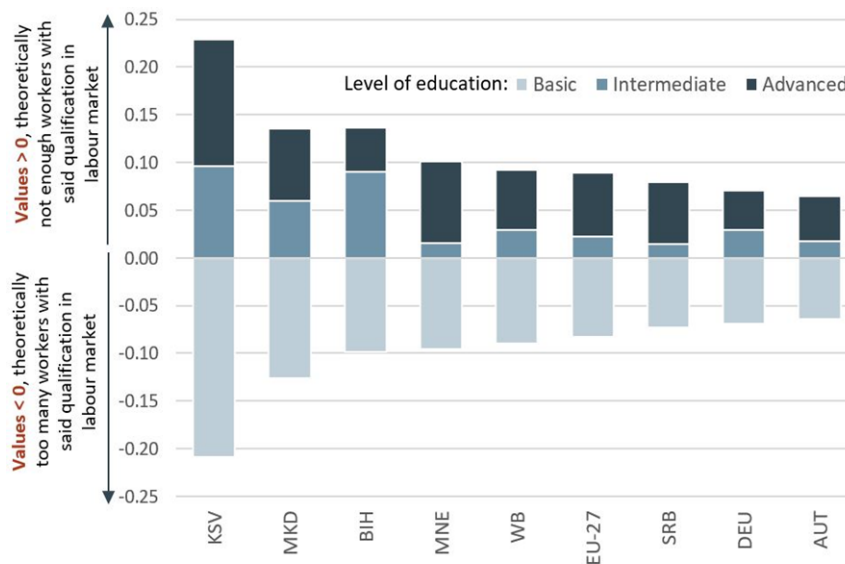
- Employment by sex, age and education (thousands) – Annual  
(EMP\_TEMP\_SEX\_AGE\_EDU\_NB\_A)
- Working age population by sex, age and education (thousands) – Annual  
(POP\_XWAP\_SEX\_AGE\_EDU\_NB\_A)

The paper used the age group “Youth, adults: 15-64”.  $E_t$  and  $P_t$  were estimated by calculating the sum of the respective qualification groups ( $E_t = E_B + E_I + E_A$ ) and ( $P_t = P_B + P_I + P_A$ ). The indicator measures to what extent the distribution of education attainment between the working age population and those employed match each other. The indicator is measured on a scale from 0 to 1, where 0 means perfect distribution and 1 means completely imperfect distribution. For example, if the share of the working age population with basic education is larger than the share of the employed population with basic education, this indicates that there are too many individuals with basic education compared to the employment opportunities for that qualification group. A common reason countries have high macroeconomic skills mismatch is if employment rates in sectors with basic education requirements are low compared to employment rates in sectors with advanced education requirements, particularly if a significant share of the working age population has low education attainment. Employment rate differences between education groups normally increase in economic downturns. A recession typically disproportionately affects jobs with lower education requirements; thus, macroeconomic skills mismatch usually increases during an economic downturn.



In the case of the Western Balkans, when the skills mismatch indicator is disaggregated by skill level, the circumstances described above appear to be true for the region. As can be seen in Appendix Figure 21, the Western Balkan region and the EU display the same structure of macroeconomic skills mismatch, i.e. the share of the working age population with basic education is larger than the share of the employed population with basic education, indicating that there are too many individuals with basic education compared to the employment opportunities for that qualification group, and the share of the working age population with advanced education is smaller than the share of the employed population with advanced education, indicating that there are too few individuals with advanced education compared to the employment opportunities for that qualification group. However, as the figure shows, the underlying data indicate that the macroeconomic skills mismatch is bigger in the Western Balkan countries than in the average EU country, particularly Germany and Austria, which have a lower level of macroeconomic skills mismatch than the average EU country.

**Appendix Figure 21 – Macroeconomic skills mismatch indicator disaggregated by skill level**



Source - CEB staff calculation, using ILO data



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