

OVERVIEW OF POVERTY AND SOCIAL EXCLUSION IN THE WESTERN BALKANS

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Introduction

The objective of the paper is to give an overview of the scope, trends and characteristics of poverty and social exclusion in the Western Balkans,¹ assess the risk of poverty and social exclusion faced by certain groups, as well as to point to some of the major challenges faced by countries and governments in their attempts to address the issues of poverty and social exclusion.

In this paper, poverty refers to insufficient consumption, although the subjective perspective is also taken into account. Social exclusion refers to "a process whereby certain individuals are pushed to the edge of society and prevented from participating fully by the virtue of their poverty, or lack of basic competences and lifelong learning opportunities, or as a result of discrimination" (European Commission, 2004b: 8). Social exclusion is a multi dimensional concept requiring an integrated policy approach.²

Increase of poverty and decrease of the middle class in the Western Balkans was caused by war, destruction, large decrease of GDP³ and economic deprivation during the nineties, as well as the transition process. Insufficient income and resources are especially exacerbated by an increased economic,

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¹ Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia (FYR Macedonia), Serbia and Montenegro, and the UN-Administered Province of Kosovo (hereafter referred to as Kosovo).

² "The highest rate of growth in expenditure in the Union over the period 1990 to 1999 occurred not in old/age pensions or health care, but in policies against social exclusion, which is really the mix of different measures which cannot readily be categorized to specific functions" (European Commission 2002: 20).

³ See list of abbreviations and acronyms at the end of the paper.

but also legal and personal insecurity⁴ and by the deterioration of institutions that previously provided "free" social and other services.⁵ All these hardships did not equally affect all segments of society. Although combating poverty is among Western Balkan countries' policy priorities, efforts to pursue poverty reduction and social inclusion become even more important as Western Balkan countries aspire to join the European Union (EU). It is therefore obvious that one of the greatest challenges for the Western Balkans is to focus on programs and activities that will lead to equitable and sustained economic growth that will also benefit the vulnerable groups. Responding to this challenge might be easier if they pursue efforts towards EU accession and attaining the MDGs concurrently, especially in the area of developing appropriate social indicators and monitoring poverty and social exclusion.

At the United Nations Millennium Summit in September 2000, world leaders agreed to the **Millennium Development Goals (MDGs)** that provide benchmarks for measuring progress in promoting human development and poverty reduction until the year 2015 and include 8 goals, 18 Targets, and 48 Indicators. The goals (indicators) should represent part of a 'Road Map Towards the Implementation of the United Nations Millennium Declaration'.

Goals from the Millennium Declaration

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve maternal health
- Combat HIV/AIDS, malaria and other diseases
- Ensure environmental sustainability
- Develop a global partnership for development

Most Western Balkan countries have either formulated or are in the process of formulating country specific MDGs which should essentially represent moving targets in numerous areas.

Historical and Socio-economic Context

During the last 15 years, the entire Western Balkans region has undergone dramatic changes. With the fall of the Berlin wall and the disintegration of

⁴ In particular the fear of becoming jobless and the uncertainty of keeping a job, the non-functioning of the rule of law, increased crime, insecurity regarding the return of some refugees and IDPs, etc.

⁵ Primarily free health care, education, but often also low-priced food in the factory canteen, inexpensive vacations in trade union holiday resorts, purchase of different goods through trade union organizations, low electricity and utility prices, etc.

the former Yugoslavia, new states were formed and, transition started, although in some countries it was quite delayed. Simultaneously, during the nineties, much of the region experienced wars and destruction, waves of refugees, internal displacement of population, devastation of the economy, impoverishment of citizens and demolition of institutions.

The common socialist, and for most the state (ex Yugoslav) past, direct loss and destruction or other consequences of war in the nearby region, as well as transition, resulted in some similar characteristics and problems in the Western Balkans region.

In the majority of the countries there was a large decrease in the GNI that is even today in some countries (Serbia and Montenegro and Bosnia and Herzegovina) only half of the amount it used to be in the beginning of the nineties. Income per capita (in current US Dollars) in most of the region is still low amounting from \$1500 to \$2000. Croatia is an exception with an income per capita over \$5000.

According to the Human Development Index (HDI),⁶ as a result of the legacy from the social welfare system in the area of health and education, the countries rank better than what would be suggested by their income levels.

Table 1.
Some basic data 2002 and 2003

Country	Population (in mil.)	GNI per capita (Atlas method, current US\$)	HDI (2002)
Albania	3.2	1740	0.781
Bosnia and Herzegovina	4.1	1540	0.781
Croatia	4.5	5350	0.830
FYR Macedonia	2.0	1980	0.793
Serbia and Montenegro*	8.1	1910	0.772**

Source: for population and GNI – World Bank database (World Free of Poverty) <http://www.worldbank.org/data/countrydata/countrydata.html>, for HDI – UNDP 2004c, HDI for Serbia – UNDP 2005 b.
* Excluding Kosovo; ** value of the HDI refers to Serbia.

High unemployment, widespread informal economy, destruction of social solidarity/networks, excessive share of public expenditure in GDP,

⁶ A measurement of human progress introduced by the United Nations Development Programme (UNDP) in its Human Development Report 1990. By combining indicators of real purchasing power, education, and health, the HDI provides a more comprehensive measure of development than does the GNP alone (<http://hdr.undp.org>).

difficulties in maintaining the external and fiscal balance, high levels of indebtedness, low level of foreign direct investments, challenges in building and transforming institutions, reforming the judiciary and public administration, are only some of the challenges faced by most of the countries in the region. Development, which is also a joint characteristic of all the countries in the region, is not, however equally distributed. In all countries there are marked differences between regions and/or between rural and urban areas, as well as an evident lagging behind of some vulnerable groups.

The Western Balkan countries differ according to their demographic characteristics. On the one hand, there are areas with a relatively young population structure and with, by European standards higher birth rates, such as Albania and Kosovo. On the other hand, low birth rates and pronounced population aging are seen in Croatia and Serbia. Total fertility rates (TFR) range from 1.5 in Croatia to 2.2 in Albania. Bosnia and Herzegovina has specific characteristics due to population loss and high levels of emigration during the war. Out of a population of 4.4 million before the war, 250,000 were killed or declared missing (UNDP, 2003: 15), while over 500,000 persons who were previously inhabitants of Bosnia and Herzegovina have moved to other countries (Bosnia and Herzegovina, 2004: 17). The last population census in Bosnia and Herzegovina was carried out in 1991, and therefore there are only estimates showing that, contrary to previous trends, today this country is also characterized by a pronounced low birth rate (TFR 1.3). In Albania, migration and emigration in particular, is very important not only in the demographic sense, but also economically and sociologically. It is estimated that one fifth of the population has left this country since 1990 (World Bank, 2003c: xviii).

Table 2.
Demographic characteristics, 2001 and 2002

Country	Total fertility rates	Share of elderly over 65	Share of children under 15
Albania	2.2	6.9	28.6
Bosnia and Herzegovina	1.3	10.2	18.6
Croatia	1.5	15.2	16.7
FYR Macedonia	1.8	10.2	22.2
Serbia and Montenegro*	1.6	16.1	16.2

Source: database WB <http://www.worldbank.org/data/countrydata/countrydata.html>; for Serbia and Montenegro Statistics Office data.
* Excluding Kosovo.

The countries also differ according to ethnic homogeneity. On one hand there are Albania and Croatia with an almost monoethnic structure (according to the latest census with 5% and 7.5% minorities respectively). On the other hand are the rest of the Western Balkan countries, multiethnic in structure, where heterogeneity is not yet seen as a resource and cohabitation of different ethnic groups still presents a challenge and a potential source of instability.

Political instability is also one of the characteristics of the region: difficulties in the functioning of the entities in Bosnia and Herzegovina, the uncertain fate of the joint Serbia and Montenegro state union and the still unresolved issue of the status of Kosovo. In addition the larger part of the region is additionally faced with the painful process of post-war reconciliation and problems in cooperation with the Hague Tribunal.

The immediate objective of all Western Balkan countries without exception is accession to the European Union. Moreover, as stated by the European Commission "the unification of Europe will not be complete until these countries join the European Union" (European Commission, 2003: 2).

Countries are in different phases regarding the objective of becoming part of the European Union. For example, Croatia already has the status of a candidate country, while Serbia and Montenegro received a positive feasibility study only in April 2005. The capacity of Western Balkan countries to learn from each other and especially from new EU member states may facilitate their integration processes.

Scope of Poverty

Dimensions of Poverty

Poverty in the Western Balkan countries is high measured according to the criteria of *national absolute poverty lines*.⁷ This line is determined through the estimation of household consumption at which families, after paying for essential non-food expenditures, just attain minimal nutritional needs. Minimal nutritional needs are determined in accordance with nutritional requirements of FAO and follow the consumption patterns of the national population.

⁷ Purchasing Power Parity (PPP) measurement is not used since it is not available in all Western Balkan countries (Bosnia and Herzegovina and Serbia and Montenegro). PPP rates measure the relative purchasing power of different currencies over equivalent goods and services (World Bank, 2000: 370).

According to a thus defined poverty line, which is therefore specific for each country, between 8% and 25% of the Western Balkan countries' populations are below this line. FYR Macedonia is the only Western Balkan country that does not measure poverty according to the absolute poverty line, although based on the PRSP of FYR Macedonia there is no major difference between the portion of those under different poverty lines.⁸ If this is so, then the share of poor in the year 2000 can be estimated at around 22% (FYROM, 2002: 25).

In the Western Balkans poverty is the lowest in Croatia, 8.4% (HBS 1998), and highest in Albania, over 25% (LSMS, 2002) and in Kosovo where half of the population is under the poverty line (LSMS, 2000).

Table 3.
Poverty incidence (% of total population)

Country	Survey year	Absolute poverty	Extreme poverty
Albania	2002	25.0	4.7
Bosnia and Herzegovina	2001	19.5	-
Croatia*	1998	8.4	-
Serbia **	2002	10.6	2.4
Montenegro	2002	9.4	-
Kosovo	2000	50.0	12.0

Source: Corresponding World Bank Poverty Assessments.
* More recent poverty research in Croatia is still not available. Thus, the Croatian Government in its latest 2004 MDG Report refers to the 1998 data.
** Excluding Kosovo.

When analyzing these data, taken from the corresponding World Bank Poverty Assessment Studies,⁹ it must be noted that the data for individual countries are not directly comparable for at least two reasons. First, this is due to methodological reasons – differences in imputations, differences in consumption patterns and differences in the ratio between food and non food expenditures which are also a result of national specificities. Second, this is due to the fact that data is based on surveys conducted over several years. The situation in transition countries, in post-conflict conditions and especially in some specific periods can change relatively quickly.

However, comparison of these data is not the objective of the presented analysis. What makes these data relevant is the fact that all Western Balkan

⁸ During the period of experimental calculations of the poverty, the absolute and the relative method for poverty were used. The obtained results indicated that there were no significant differences in the level of poverty measured by the various methods (FYROM, 2002: 25)

⁹ Poverty data in this paper were taken from the corresponding World Bank Poverty Assessment Studies, except when stated otherwise.

countries are using them as core data in their National development strategies, PRSP and MDG reports. Furthermore, monitoring of trends and structures is of much greater importance.

According to the above estimates, the total number of poor in the region amounts to around 4 million inhabitants, or over 17% of the total population of the region. This figure most certainly ranks the Western Balkans as the poorest region in Europe. The largest number of poor lives in Bosnia and Herzegovina, Serbia, Albania and Kosovo. In each of these countries/provinces between 800,000 and one million persons cannot satisfy the minimum national standards for basic food and non-food needs.

Most Western Balkan countries do not monitor poverty trends regularly and consistently. The latest available data are presented in table 3. However, there are indicators and findings that can enable us to conclude that in the subsequent years *none of the countries significantly decreased their poverty levels*, in spite of economic growth and the increase in GDP per capita. For example, a UNDP study for 2003 shows that in Croatia the share of poor in the total income was lower in 2000 than in 1998 (Republic of Croatia, 2004: 3). Findings of the 2003 LSMS (Panel survey) for Serbia confirm that the poverty level has remained unchanged, in spite of the growth of the GDP and income of the population. According to the Statistics Office of Kosovo the HBS data for 2002 show that "there is no significant change in poverty compared with autumn of 2000" (Statistical Office of Kosovo, 2003: 2).

Many factors significantly decreased the living standards of most of the population during the nineties. This was not only caused directly by war, destruction and the decrease of GDP. In many Western Balkan countries the population was exposed to numerous economic hardships, from hyperinflation, "freezing" of old foreign currency savings, through financial pyramid schemes, sanctions, and disintegration of the common market in the case of former Yugoslav Republics. Irregular income, and often working without pay, the destruction of large socially-owned enterprises, arrears or lack of social assistance and pensions, non-functioning of the health care system and the need to pay for services that were previously "free of charge", pushed many, previously well-off households, to the verge of poverty or below the poverty line. Refugees and IDPs found themselves in a particularly difficult situation since they were left overnight without shelter, employment and pensions.

This resulted in a *great concentration* of the population/households just above the poverty line in all Western Balkan countries. A small shift upwards of the poverty line leads to a significant increase in the number of poor. If we were to move the poverty line up by 10% this would result in

almost one third of the Albanian population falling under the poverty line (World Bank, 2003c: 13), while it would increase the share of poor in Serbia and in Montenegro by one third (World Bank, 2003b, Vol. I p.8). In Bosnia and Herzegovina moving the poverty line by 50% of its value would result in one half of the population falling under the poverty line (World Bank, 2003a, Vol. II: 52).

The "vulnerability" of a significant number of households that are densely concentrated just above the poverty line and can easily slip under it is particularly cautionary, having in mind the fact that most of these countries are faced with further economic reforms. However, detailed analyses of these groups are still not available and this should be an important topic for research in all Western Balkan countries. These analyses could provide valuable input for policy recommendations especially in view of the EU agenda.

On the other hand, the concentration of poor is also high just below the poverty line, so moving the poverty line only slightly downwards would mean that a significant part of the population would exit from poverty.

Among the poor, there are a number of those who are *extremely poor*. Extreme poverty, meaning that not even basic food needs can be met, is significantly present in Albania (4.7%) and is even more present in Kosovo where, according to data from 2000, it is almost 12%. In Serbia, extreme poverty is found in 2.4% of the population and the most recent results show that it is also present in Montenegro (World Bank, 2003b, Vol.I: 7). In the other countries, extreme poverty has not been identified.

It is possible, however, that the problem of extreme poverty in the Western Balkans is more present purely due to the fact that it is difficult to identify by standard surveys that cannot capture the poorest groups that live in slums, are not registered and are unavailable when determining the survey sample. Indices pointing to this thesis can be found in special poverty surveys conducted among the Roma population. In addition, samples usually do not cover people residing in institutions. In some countries, even today a portion of the refugee and IDP population lives in extremely difficult conditions in collective centers. For these reasons, Western Balkan countries must be aware that official assessments are likely to be partly misleading and can underestimate the magnitude of the problem.

***Some Links between MDGs, Poverty Reduction and
the EU Social Inclusion Process***

Goal 1: Eradicate extreme poverty and hunger

Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.

Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Country	Nationalization
Albania	Halve between 2002 and 2015, the proportion of people living in extreme poverty
	Reduce between 2002 and 2015, the proportion of people who suffer from malnutrition
	Reduce unemployment, between 2002 and 2015, to reach EU standards
	Make information & communication technologies available
	Increase availability of electricity for all
	Establish an open trading and financial system for inclusive economic growth
Bosnia and Herzegovina	Reduce general poverty to the EU average in 2015
Croatia	Halve between 2001 and 2015, the proportion of people living in absolute poverty
<i>Source:</i> Republic of Albania (2004), UNDP (2003a), Republic of Croatia (2004).	

It is realistic to assume that all Western Balkan countries will attain the Millennium Development Goal 1 as defined by the Millennium Declaration by 2015. Countries in which extreme poverty is already low or has not been identified through surveys, will need to direct their efforts at decreasing the level of absolute poverty and eradicating poverty in selected groups.

Additionally, Western Balkan countries, like Central European countries before them, will at the appropriate phase need to formulate Joint Inclusion Memoranda and corresponding policies on reducing poverty and social exclusion of the most vulnerable groups (UNDP, 2004b: 10).

Therefore, it would be very important for Western Balkan countries to structure their efforts in producing MDG Reports in such a way that they build their capacities for the future work on the JIM and, following their accession to the EU, to the formulation of their National Action Plans (NAPs).

As opposed to the absolute poverty line, the EU uses the *relative poverty line*¹⁰ which defines poverty relative to the national living standard. In 2001, 15% of the EU-15 population were living in households where equivalized income was below the threshold of 60% of the national equivalized median income (European Commission, 2004b: 12).

In transition countries, however, it is generally accepted that consumption represents a better indicator of material well-being than income. This is due to the widespread informal economy, irregularity of wages and other income (expenditures show greater stability over time), non-declaring of remittances, as well as a significant share of food consumption from household plots (for self-consumption) which is often not included as a part of the income concept (World Bank, 2000: 368). This is especially true for the Western Balkans. Therefore, for the countries in this region in which relative poverty was calculated, a certain percentage of the median household per capita consumption was used as a measure. According to these calculations relative poverty (using thresholds set between 60 and 70% of the median) in each of the Western Balkan countries, ranges between 11 and 22 percent, while in Kosovo it amounts to 25%.

Table 4.
Relative poverty

	Survey year	60% median	66% median	70% median
Albania	2002	13.5	-	-
Bosnia and Herzegovina	2001	-	16.7	-
Croatia	2001	17.2	-	-
FYR Macedonia	2000	-	-	22.6
Serbia *	2002	20.2	-	-
Montenegro	2002	11.0	-	-
Kosovo	2000	-	-	25.1

Source: Republic of Croatia (2004) – for Croatia, FYROM (2002) – for FYR Macedonia; for other countries – respective Poverty Assessments.
* Excluding Kosovo.

The difference between absolute and relative poverty can be seen clearly in the example of Albania. The rate of absolute poverty in Albania is 25%, which would make it the most vulnerable country in the Western Balkan region. On the other hand, Albania's relative poverty rate is approximately

¹⁰ EU Council of Ministers, adopted by the Council on 19 December 1984 (Council Decision 85/8/EEC), which states that "the poor shall be taken to mean persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State in which they live."

13.5%, which is lower than in most of the Western Balkan countries. This means that out of all the countries in the Western Balkan region, in Albania there is the largest percentage of the population whose consumption is less than the basic food and non-food needs, but that it is not that much different from other countries when it comes to the share of those who are excluded from the minimum acceptable way of life in states in which they live.

In Serbia the share of relatively poor is among the highest in the region and amounts to approximately 20%, which is considered moderate according to European methodology (World Bank, 2003b, Vol. II p.26). In FYR Macedonia, where poverty is measured precisely by the relative poverty line, the share of poor below 70% of the median equivalent consumption amounts to 22.6% (FYROM, 2002: 29).

Monitoring relative poverty is important due to the European perspective of Western Balkans.

Therefore, all Western Balkan countries could, for example, also introduce monitoring relative poverty in the framework of their MDG Reports.

If, however, the primary objective is to calculate the poverty rates and monitoring them over time, the absolute poverty line may be more relevant at this stage (World Bank, 2003a, Vol. I p.5). From the Albanian example it is obvious that relative poverty can easily underestimate the severity of problem where large sections of the population have subsistence or below subsistence incomes/consumption (Spoor, 2004: 7).

Respecting this rationale and in view of its importance for new member states as well, considerations are emerging on including other indicators, in addition to relative poverty, in the so-called Laeken indicators. "The decision to place the main emphasis on relative rather than absolute or fixed thresholds may, however, need to be re-visited in the context of an enlarged Union" (Marlier, Atkinson, Nolan, 2003: 8).

Subjective perceptions of poverty in the entire region are very much present. These perceptions are caused by various factors. First, people have the tendency to compare the present situation with relative higher standards of living in the seventies and eighties in the countries of the former Yugoslavia. During that period, a significant portion of the population not only had higher social and personal standards of living, but could also afford regular vacations and traveling abroad. Compared to the way they or their parents lived twenty years ago, they come to the conclusion that they are poor. Increased insecurity (especially with respect to job loss) as an important factor of the new reality, together with some other factors, such as decreased

sense of personal security, definitely exacerbate the feeling of vulnerability and risk of poverty.

Subjective poverty is magnified by the high expectations that living standards would increase in a relatively short period of time following democratic changes and entering transition, i.e. following the end of war and destruction. There is no doubt that these expectations are additionally nurtured by politicians in election campaigns when they keep promising better lives to the citizens, something that cannot be attained quickly in most Western Balkan countries.

The large quantities of luxury goods available on the markets of these countries, unattainable for most, and the emergence of extremely rich individuals additionally contributed to the subjective feeling of poverty. Different surveys and UNDP Early Warning Reports in Western Balkan countries show that at least one half of the population perceives their financial position as unsatisfactory or mostly unsatisfactory.¹¹ It is interesting that even in Croatia, by far the most developed and the richest in the Western Balkans 80% of the population considers themselves poor (UNDP, 2002c).

The mismatch between objective and subjective poverty can also be observed in reverse. Among the objectively poor in Albania, half did not perceive themselves as poor (World Bank, 2003c: 24). It is obvious that poverty does not always begin and end with income and consumption. Also, perceptions are formed by making comparisons with the rest of the population (relative poverty).

Depth of Poverty and Inequality

The depth of poverty can inter alia be measured by the *poverty gap* and its corresponding measure *poverty deficit*.

Poverty gap is measured as a percentage of the poverty line and reflects the amount that the state should "take" from its citizens and re-route it towards the poor in order to increase their consumption up to the level of the poverty line.

Poverty deficit is a poverty measure that takes into account how far the poor, on average, are below the poverty line. The average deficit is the amount,

¹¹ According to these surveys, in Bosnia and Herzegovina the majority of the population considers themselves poor, in Serbia close to one half, in Montenegro and Croatia as much as 80%, Albania 90%, FYR Macedonia 28.7% declare that their monthly income is insufficient to meet their needs, with an additional 40.7% declaring that it mostly does not meet their needs.

measured as a percentage of the poverty line by which the mean consumption of the poor on average falls short of the poverty line (World Bank, 2000: 372).

In most Western Balkan countries the poverty deficit is around 20%, while the poverty gap is between 1.3% and 5.7% (table 5). The poverty gap is higher in countries with a higher poverty rate, i.e. in countries where there is a less favorable ratio between those who need to receive" (poor) and those from whom the state needs to "take" (total population). In the case of perfect targeting this transfer would completely eliminate poverty. Overall, as has already been stated, poverty depth is not large.

Table 5.

Poverty depth (in % of the poverty line) and inequality

Country	Survey year	Poverty gap	Poverty deficit	Gini coefficient ¹²
Albania	2002	5.7	22.8	28
Bosnia and Herzegovina	2001	4.6	24.0	27
Croatia	1998	1.8	20.7	36
Serbia *	2002	2.2	21.2	30
Montenegro	2002	1.3	13.7	29
Kosovo	2000	15.7	-	29

Source: Corresponding Poverty Assessment, for Gini coefficient – World Bank database (World Free of Poverty) <http://www.worldbank.org/data/countrydata/countrydata.html> and Milanović (2003).
* Excluding Kosovo.

A panel survey (LSMS in Serbia 2003) that compared the positions of the same households during one year, shows that in Serbia 4.5% of the population remained under the poverty line both in 2002 and in 2003. This means that almost half of the poor remained in poverty (i.e. the situation remained unchanged), while more than half managed to increase their consumption and rise above the poverty line. The exiting of a relatively large portion of the population from poverty in just one year illustrates that poverty is not deep i.e. exiting poverty does not require substantial resources. It is important to note that entering or exiting poverty is clearly linked with becoming employed or losing a job (Krstić, 2005). On the other hand, social inclusion of the groups that have somehow become "stuck" in poverty requires special measures and cannot be achieved solely by economic development and/or only using the measures created at the central level.

¹² Inequality statistic for income or consumption, showing how unequally these are distributed in the population. It ranges between 0 (perfect equality) and 1 (complete inequality).

Inequality in the Western Balkans is also not high. For purposes of comparison, inequality in the region ranges between the values for Central European countries that usually have low inequality, and countries of the former Soviet Union where inequality is significantly higher (Milanović, 2003: 71).

A higher level of inequality, "far higher than generally observed in transition and market economies" is evident only in Croatia (World Bank, 2001a: x) where the Gini coefficient based on consumption per capita is 36. The higher the level of inequality, the more widespread is the poverty for a given income level. Having in mind Croatia's economic growth, it would have a lower poverty rate, especially the absolute poverty rate, "if inequality were comparable with other CEE countries" (World Bank, 2001a: xi). The values for the Gini coefficients based on consumption in the rest of the countries ranges between 27 and 30 (table 5).

Coping Mechanisms

Widespread poverty and declining living standards resulted in the creation of *coping mechanisms* throughout the region. The most important of these is agriculture or the cultivation of a household plot, which has enabled many households to survive, especially during the most difficult war years. Even today in Bosnia and Herzegovina 37% of the urban population tills the land, while 40% own livestock (World Bank, 2003a, Vol. I: 43). Also, a number of "urban" inhabitants still have relatives in the rural areas who provide them with support.

Among different coping mechanisms, remittances from abroad are also very important in almost all Western Balkan countries. Remittances are provided not only by emigrants who left their countries in the past ten years¹³ (Albania, Bosnia and Herzegovina), but also by the numerous "workers temporarily employed abroad" who left the poorer regions of former Yugoslavia in the 1970s to work in West European countries. It is not easy to estimate the total amount of remittances from abroad, since to a large extent they are not sent through official transfers. According to the available data, remittances in the Western Balkans amount to over 5 billion US dollars, while in some countries they are estimated to exceed 20% of GDP.¹⁴

¹³ Among whom many are young, highly educated, undermining the ability of the Western Balkan countries not only for economic recovery and development, but for faster democratization, as well.

¹⁴ It is estimated that in Albania, remittances from abroad in 2001 amounted to 543 million US Dollars (Republic of Albania, 2001: 27), while in BiH this amount was 1.05 billion Euro (World Bank, 2003a, Vol. I: 28), between 15% and 22% GDP. According to National Bank estimates, in 2003 Serbia received 2.74 billion US Dollars in remittances, out of which only 780 million were transferred through banks. In FYR Macedonia, remittances are also an

In addition, having in mind the still very traditional role of the family in many parts of the region, family solidarity certainly plays an important role in survival. Often due to unfavorable financial situations, one of the coping mechanisms is living in multigenerational families or going back to live with parents.

Other coping mechanisms include, working in the informal economy, sale of property or spending savings that are estimated to be still to a large extent kept in "mattresses" due to the lack of confidence in banks. Among the most poor, another mechanism is non-payment of electricity and other utility bills.¹⁵

Regional and Urban/Rural Differences and Vulnerable Groups

In the Western Balkans groups that stand out as especially vulnerable and excluded are the unemployed, dependents and the less educated. At the level of the household, in some countries households with many children and elderly households are particularly vulnerable. The poorest often live in the rural areas and in the underdeveloped regions. In addition, especially vulnerable groups, who cannot even be completely covered by standard surveys, but are poor and socially excluded by many indices are the Roma, refugees and IDPs and persons with disabilities.

Poverty analyses in Serbia, Montenegro and Croatia show that a more comprehensive coverage of poverty, that would include the above categories, would increase the share of poor by 1/4 (World Bank, 2003b, Vol. I: 7), or 1/5¹⁶ (World Bank, 2001a: 21).

For the majority of countries it is characteristic that in addition to the traditionally poor there is a category of "*new poor*" found among the elderly workers that become jobless, pensioners with low pensions, as well as among the employed with very low and irregular wages, seasonal workers and employed in the informal economy (working poor). This group of "*new poor*" often lives in regions where past economic activity was entirely concentrated in one or few industrial enterprises (large socially-owned enterprises), which are now closed down.

important source of income for households (World Bank, 1999, Vol. I: 49). The most recent Early Warning Report for Kosovo estimates that remittances in 2004 amounted to approximately 244 million Euro (UNDP, 2004d: 18).

¹⁵ This was especially true for Serbia during the nineties.

¹⁶ In Croatia, thus, poverty according to the absolute poverty line would increase from 8.4% to 10%. The figure of 10% was used as the level of absolute poverty in the Croatian National Report on MDGs (Republic of Croatia, 2004: 3).

All surveys show that the poor most often have low levels of education, and live in small, sub-standard apartments/houses in rural areas and in poor regions. The poor have no savings, have a non-varied diet and often cannot afford even the most basic healthcare services. Because of their poverty they usually experience multiple disadvantages, which "distance them not only from job, income and education, but also from social and community networks and activities".¹⁷

Regional and Urban/Rural Differences

Regional differences are present in all countries without exception. In Serbia the most vulnerable live in South East region, in Montenegro in the North, in Albania in the mountainous region. In Bosnia and Herzegovina, the population living in the Republic of Srpska is more vulnerable, while in Croatia the rural parts of Slavonia and the Central region are the poorest. Regional differences are significant in all countries, to the largest extent traditionally present and additionally burdened with the aging of the population and the migration from these areas, the lack of infrastructure and access to public services, and in some case due to a harsh climate. The greatest differences between regions are seen in Albania. In the mountainous region in the North and North-East of the country almost one half of the population are poor, while each fifth inhabitant in this group is extremely poor and cannot satisfy even the basic food needs (World Bank, 2003c: 41).

In the entire region, poverty risk is higher for the *rural* population, who comprise the majority of the poor. In FYR Macedonia and Serbia, for example, two thirds of the poor live in rural areas. One of the causes of poverty in rural areas is the unfavorable position of agriculture resulting from yearlong policies of low food prices and the spill over of income from agriculture into other sectors, fragmented and small agricultural plots, lack of machinery, as well as the pronounced aging of the rural population in certain countries. Due to the aging of the rural population (mainly as a result of migration), economic growth even coupled with modernizing and developing the agriculture, cannot on its own bring relief to this group. This is even more relevant because some farmers are not covered by pensions and can only rely on the social welfare system.

In order for the younger and active part of the agricultural population to exit poverty it is vitally important to complete the transition to market agriculture, to develop the land and credit markets, to increase investment, and to increase quality standards of goods. This should contribute to the intensification, modernization and change in the structure of agricultural

¹⁷ Which is in accordance with the definition of social exclusion of EU (European Commission, 2004b: 8).

production and to decreasing the poverty of at least one part of the population living in rural areas.

Those living in rural areas are excluded not only in terms of material well-being (income and consumption), but also due to their isolation, especially in the mountainous regions, as they often have inadequate access to education, health and cultural institutions. In most countries, there is limited access to adequate infrastructure facilities (roads, water supply, electricity, etc.), which constitutes a considerable barrier to modernizing agriculture.

The reduction of overall poverty does not necessarily result in the reduction of rural poverty. The previously mentioned panel survey conducted in Serbia in 2003 shows that poverty in Belgrade in only one year decreased from 7.7% to just 2.6%, while it increased in Southeast Serbia to encompass over one third of the rural population (Yemtsov, 2004). It is interesting that during the period of distinct crisis in Serbia and Montenegro the urban population had a higher risk of poverty than the rural population who could rely on subsistence farming and in-kind consumption.

The Unemployed and Less Educated

Except in the case of Albania, the data on unemployment from labor force surveys and those from poverty surveys significantly differ from official statistics data (registered unemployment). These differences can be partially explained by the widespread informal economy. The informal economy in the Western Balkans is most present in agriculture and trade, and those engaged in the informal economy are usually the most vulnerable categories of the population (refugees, IDPs, women, Roma) (Bateman, 2004). The income earned in the informal economy is irregular and low, while "employment" is insecure and outside of the social insurance system. Therefore, regardless of the fact that formally speaking real unemployment is lower than registered unemployment, this type of "employment" is not an adequate solution for poverty reduction.

Poverty surveys, almost without exception confirm that poverty risk of the unemployed persons is among the highest and that it is 60% to 70% higher than that of the average population. The unemployed, regardless of the fact that they are the most exposed to poverty risk in most countries do not, however, represent a significant part of the poor – 13% in Bosnia and Herzegovina, 19% in Serbia (World Bank, 2003a, Vol. I p.34; Republic of Serbia 2003: 74). This is simply a result of the fact that the large majority of the unemployed lives in households where the income and resources are shared among the household members, especially since unemployment is extremely high among the youth and is higher for women than for men. On the other hand, one should bear in mind that because of the way the poverty

risk is calculated it supposes an equal sharing among the members of the household which does not necessarily have to be the case.

Table 6.
Unemployment rates in 2003, share of informal economy

Country	Unemployment rate LFS	Registered unemployment rate	Share of informal economy in GNP
Albania	15.2	15.0	33.4
Bosnia and Herzegovina	16.4	39.0	34.1
Croatia	14.3	19.2	33.4
FYR Macedonia	30.5	36.7	45.1
Serbia and Montenegro*	15.2	27.6	29.1
Kosovo	–	50.0	–

Source: For the share of informal sector in GNP 1999/2000 Bateman (2004); for unemployment rates <http://laborsta.ilo.org/>, for Bosnia and Herzegovina Poverty Assessment, for Kosovo UNDP HDR 2004.
* Excluding Kosovo

The largest number of poor therefore lives in households where at least someone is working. In Bosnia and Herzegovina and FYR Macedonia, over 60% and in Serbia 74% of all poor live in households where someone works, but most often only one household member. That is why employment growth is one of the most important factors for poverty alleviation. For many households the employment of one additional member or a decrease in the number of dependents, "children" becoming employed and starting their own families is a necessary precondition for exiting poverty.

However, not any type of employment, but rather employment in the formal economy and better paid jobs. Limited employment opportunities are also among the most important causes for poverty in Croatia, where it is estimated that around half of the poor depend on employment opportunities and earnings (World Bank, 2001a: 23).

For some countries, for Serbia in particular, a special threat in the forthcoming period might be the unemployment of older workers (age 45 and above) who are left without jobs due to the process of restructuring of public and socially owned enterprises.

According to Poverty Assessments, in all Western Balkan countries there is a strong correlation between poverty and *education*. Between 60% and 80% of the poor completed only primary education or less, and their poverty risk is significantly above average. Also, the same percentage of poor lives in households where the head has only primary education or less.

***Example of Links between MDGs, EU Social Inclusion
and Education***

Goal 2: Achieve universal primary education

Target 3: Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Country	Nationalization
Albania	Ensure 100% primary school attendance of both boys and girls
	Implementation of measures to assure improved quality of primary education
	Approximation of financial indicators for primary education in line with OECD countries
Bosnia and Herzegovina	Ensure that by 2015 all children, regardless of place of residence or gender, complete a quality primary education and come close to the successful completion of a secondary school education.
Croatia	Coordination of education with the European Community – Bologna Process
	Achieving a foundation for successful inclusion into the workplace, economy and contemporary technology, based on knowledge
	Organization of services
<i>Source:</i> Republic of Albania (2004), UNDP (2003a), Republic of Croatia (2004).	

The probability of achieving the second MDG in the Western Balkan countries ranges from the estimate that in Albania it will probably be attained by the year 2015 (UNDP, 2002a: 19), to that where Croatia already today has practically a hundred percent coverage of girls and boys by primary education (Republic of Croatia, 2004: 7).

In their national documents and reports the Western Balkan countries, in addition to coverage, state the need for improving the quality of education, harmonization with labor market needs and the reform of adult education.

In the EU integration context, in the forthcoming period, stronger emphasis will need to be placed on early interventions i.e. policies towards providing care and learning for pre-school age children and on education as a framework of lifelong learning which includes all non-formal and informal learning (European Commission, 2004c: 65).

Most frequently it is the low level of education of the poor that is in strong correlation with their status on the labor market. In many cases it is an important cause of unemployment and forces many to seek opportunities in the informal labor market or in seasonal and ad hoc jobs. Low level of education is also often the most important determinant of low wages of the poor, even when they are employed in the formal sector.

From the long term perspective, indicators that are especially significant are those, like in Croatia, which show that access of children from poor families to upper secondary and higher education is severely limited (World Bank, 2001a: ix). If that is so, this issue needs to be addressed in order to prevent the trans-generational reproduction of poverty.

Refugees, IDPs and Minorities

Fleeing from war and conflict in the ex-Yugoslavia region during the nineties, over three million people permanently or temporarily left their homes. All Western Balkan countries faced the problem of refuge and displacement. The most affected were Bosnia and Herzegovina, Croatia, Serbia and Kosovo during the wars and destruction, and following the Kosovo conflict in 1999, FYR Macedonia and Albania also received waves of refugees. Even today in the Western Balkans there are almost 900,000 persons with refugee and IDP status.

Table 7.
Number of refugees and IDPs, 2004

Country/province	Refugees	IDPs
Albania	95	-
Bosnia and Herzegovina	22,269	311,594
Croatia	3,759	7,861
FYR Macedonia	2,247	1,717
Serbia and Montenegro*	283,349	226,410
Kosovo	-	22,850

Source: UNHCR, 2004.
* The preliminary data from the latest Refugee Re-Registration exercise that was conducted in Serbia and Montenegro in late 2004, early 2005 (final official results expected in August 2005) indicates that number of individuals who will remain with the refugee status is decreasing.

All LSMS poverty surveys show or indicate¹⁸ that the poverty index of the refugee and IDP population are 50% or even twice as high when compared to the poverty of the local population. The fact that poverty of this

¹⁸ Certain surveys have samples that are not representative for refugees and IDPs, and their results can only be indicative and not precise indicators of the situation of these particular groups.

population group is significantly above average is also confirmed by the UNDP 2005 dataset.¹⁹

Unemployment, irregular and unstable sources of income, on one hand, and the loss of property and unresolved accommodation are for many an almost insurmountable problem and source of poverty. UNDP 2005 dataset shows that the unemployment rates of IDPs and refugees are two to three times higher than the national average for Bosnia, Croatia and Serbia and Montenegro.

Additionally, a large number of refugees and IDPs do not have health insurance or face difficulties in accessing health care and social services, some elderly have not yet resolved their pension entitlements, many still have problems in acquiring the necessary documents. The issues of return of property and "tenants' rights" have not been resolved for all. Trauma caused by loss and discontinuity, stark poverty and isolation, pushed many, especially elderly refugees and IDPs into a state of apathy, causing a strong sense of hopelessness. Definitely the most vulnerable are the refugees and IDPs in collective centres, particularly the elderly, ill, without revenue and without hope. The phase-out of humanitarian assistance made the situation even more difficult. In Kosovo and in Bosnia and Herzegovina estimates also show that returnees have a higher poverty risk than the rest of the population.

Regular monitoring of the poverty and social exclusion of refugees and IDPs, as well as building a regional policy framework, such as the 3x3 initiative,²⁰ are important preconditions for achieving social inclusion in the Balkans.

Data regarding the poverty of *ethnic minorities* are not available in most Western Balkan countries. The available research is either partial or does not sufficiently distinguish between regional and ethnic factors. In some countries, like in FYR Macedonia for example, findings show that "ethnicity is not a risk factor for impoverishment" (FYROM, 2002: 63). The UNDP Early Warning Report for Bosnia and Herzegovina indicates that Croats, Muslims and Serbs when living in areas where they constitute a minority are more vulnerable than the majority population (UNDP, 2002d: 34). In the country as a whole, the wealthiest regions are those where Croats constitute

¹⁹ <http://vulnerability.undp.org>.

²⁰ UNHCR will take a leading role in the recently launched 3x3 initiative aimed at providing a regional framework and bolstering the political will to provide solutions to the outstanding refugee caseload from the ex-Yugoslavia before the end of 2006. The initiative is bringing together the three countries in the region (SAM, BiH and Croatia) and the three international actors – the EU, the OSCE and UNHCR.

the majority population, while the poorest regions are the ones where Serbs are the majority population (UNDP, 2002d: 16-17). In Kosovo, the poverty incidence is higher among the Serbs (58.7%) than among the Albanians (48.9%) (World Bank, 2001b, Vol. II: 14).

The most systematic data that has been collected on ethnic minorities provides information on the status of the *Roma* population, which comprises one of the most vulnerable population groups in almost all of the Western Balkans.

The Roma live in all Western Balkan countries. Their total number is estimated at over 850,000 out of which almost half lives in Serbia. A significant number of Roma lives in FYR Macedonia (between 135 and 250 thousand) and in Albania (95 thousand).²¹ These estimates in all countries are significantly higher than census data which cannot be considered accurate. A number of Roma live in settlements and in places that are not covered by census or by surveys, while on the other hand a number of well off Roma are integrated and do not declare themselves as Roma.

In mid 2003 in Serbia in parallel with the LSMS panel survey a special sample (booster) was formed for analyzing the poverty and living standard of the Roma who mostly live in Roma settlements. According to these analyses every tenth Roma household is extremely poor, meaning that they cannot satisfy even the basic food needs.²² Among the surveyed households two thirds are under the poverty line (UNDP, 2005b), meaning that according to these data Roma are even 6 times poorer than the average for Serbia.

Similar results are also shown by the survey conducted in the framework of a UNDP project²³ in ten countries of Central and Eastern Europe including the Western Balkans (UNDP, 2003; UNDP, 2005a). The share of poor per consumption among the surveyed Roma households in the Western Balkans ranges between 12% and 60%, and their poverty is significantly higher than in the majority population households living in close proximity. Roma are unable to find regular employment and most often work in the informal economy or in underpaid and seasonal jobs. According to survey results the unemployment rate of the Roma is two to three times higher than that of the surveyed majority population living in close proximity. In all countries that

²¹ Data presented in accordance to Stubbs and Gerovska Mitev (2005) and also in the UNDP HDR (2003).

²² Their total household consumption is below the value of the minimum consumer basket.

²³ The data for the survey was collected through face-to-face interviews in 10 CEE countries including the Western Balkans. Non-Roma households living in close proximity to the Roma and Roma households were interviewed.

have been surveyed, Roma women have almost twice as high unemployment rates as Roma men (UNDP, 2005a). This suggests that Roma women face a type of double exclusion from the labour market.

Indicators on education are particularly unfavorable. In Serbia over 60% of Roma aged over 15 is either without school or with incomplete elementary education (UNDP, 2005b), and in all of the Western Balkans there are cases of illiteracy among the elderly Roma. Still the most alarming data are those regarding drop-outs from school, even primary school. The data differ from country to country, but the model is the same. Enrolment rates are low, lower than in the majority population and drastically decrease in higher primary school grades. In some countries barely 30% of fifteen year old Roma attend primary schools, while in Montenegro this figure is only 8%. This can partly be explained by the presence of the refugee and IDP Roma children who face specific problems since they are unfamiliar with the language of the country where they sought refuge. Such low enrolment rates of the youth do not provide hope for ending the vicious circle of low education, unemployment and poverty (UNDP, 2003; UNDP, 2005b).

All data clearly indicate that general economic growth, even employment growth will not enable the inclusion of the Roma population, just as the MDGs cannot be attained for a country as a whole if the Roma remain excluded.²⁴ Specific measures are needed, especially in the area of education, to improve the situation of Roma.²⁵

In addition, it is clear that social exclusion of ethnic minorities is especially important in the context of European integration. Even in new EU member states, one of the six challenges which emerge clearly from the Joint Inclusion Memoranda is the need to intensify efforts to overcome exclusion and discrimination of some ethnic groups, especially the Roma (European Commission, 2004c: 6). To achieve socio-economic inclusion for all groups the Western Balkan countries will need to opt for policies that promote growth with equity (UNDP 2004c: 65).

Gender Aspects

In the Western Balkans, without exception, according to the corresponding constitutions and under the law, women and men are equal. Equality under the law, however, does not automatically result in gender equality. A number

²⁴ In Serbia additional problems can be exacerbated by announcements regarding the repatriation of a large number of Roma from Kosovo (around 40,000 only from Germany).

²⁵ In Serbia and Montenegro, the Ministry for Human and Minority Rights has prepared the Draft Strategy for Integration and Empowering Roma, as well as national action plans in several areas, including an Action Plan on Improvement of Roma Education.

of data clearly indicate that women are in a less favorable position than men in the Western Balkans, especially regarding status on the labor market. Women mostly have higher unemployment rates, are unemployed for a longer period of time and have greater difficulty finding jobs,²⁶ have lower wages, are dominant in less profitable industries and sectors, and are

<i>MDG Nationalization and Gender Equality</i>	
Goal 3: Promote gender equality and empower women	
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.	
Country	Nationalization
Albania	Eliminate gender disparity in primary and secondary education preferably by 2005 and at all education levels by 2015
	Eliminate gender disparity in elected organs and decision making positions in central and local Government
Bosnia and Herzegovina	Increased participation of women in the economy (labour force, highly paid and executive positions, etc.)
	Increased participation of women in politics and decision-making
	Reduced level of domestic violence against women and other forms of gender-based violence.
Croatia	Gender sensitive education introduced into curricula and programs
	Increased participation of women in politics and decision-making
	Economic empowerment of women
	Reduced level of all forms of violence against women
	Enhanced statistics data monitoring
	Increased media support to gender equality
<i>Source:</i> Republic of Albania (2004), UNDP (2003a), Republic of Croatia (2004).	

less present in management positions and among entrepreneurs. When compared to men there are fewer women in the labor market, especially in Bosnia and Herzegovina and in Kosovo (participation rates are only around

²⁶ In some countries even job advertisements reflect this discrimination.

35%, the lowest in Europe). In Albania it is estimated that a large number of women only marginally participate in the labor force, are either underemployed in farming activities or are discouraged workers (World Bank, 2003c: 20). As a result of accumulated differences (in years of work, lower wages, lower education) in their late years, women's pensions are lower than men's.

A large part of the difference stems from the traditional role of women in family life, where a woman almost by herself, bears the double burden of working at the job place and unpaid labour at home. In addition, as a result of the traditional position of women in society, they often do not possess property, do not always equally inherit property, and do not participate in politics. Following the disintegration of socialism in some countries there is a tendency of revival of discriminatory attitudes.²⁷ Another serious problem emerging is trafficking, often seen by victims as the only way out of poverty.²⁸

In spite of the stated differences, consumption poverty in the majority of Western Balkan countries is evenly distributed among women and men. This can be explained by the higher number of traditional family and marriage arrangements, and by the fact that divorce rates are lower and the share of female headed households is lower than in other European countries (Coleman, 2004).

According to different Poverty Assessments, in most countries female-headed households do not have a higher poverty risk (Macedonia, Bosnia and Herzegovina, Albania)²⁹ or have only a slightly higher poverty risk (Serbia, Montenegro). In Kosovo there is also no major difference in poverty risk, except in rural areas (World Bank, 2001b, Vol. I: 16).

In Bosnia and Herzegovina³⁰ and Serbia, single mothers do not have higher poverty risk, due to their integration in the extended family.

²⁷ In Albania, the Code of clan-based law (Kanun) has been revitalized particularly in North-eastern regions. It includes some articles that discriminate against women and promote domestic violence (UNDP, 2002a: 24)

²⁸ In Albania, combating trafficking is one of the country's top priorities. The main causes of trafficking for prostitution include high poverty rates and a desire to improve living standards quickly especially among the youth (UNDP, 2002a: 24)

²⁹ In Albania the share of female headed households among the poor is lower (9.3%) than among the non-poor (13.1%) (World Bank, 2003c: 25)

³⁰ In Bosnia and Herzegovina 10% of single mothers lives in households, but only 2% live in households headed by single mothers (World Bank, 2003a, Vol. I: 42)

Children

As much as it is important for all, the wider concept of poverty, beyond pure consumption and income-based poverty is especially important for **children**. Growing up in an isolated environment without adequate access to cultural and educational services, or in slums and overpopulated urban zones, being sometimes faced with family violence, alcoholism, depression, leaves life-long scars, even when the poverty line is "surmounted" and the household has enough resources for basic food and other needs. Therefore, even when poverty data do not single out children as one of the most vulnerable category of the population, they must be a priority. Not only by providing assistance to the family, but also through educational, cultural and health institutions, through developing the social services network for children without parental care, children with disabilities, those in conflict with the law, and victims of trafficking and prostitution.

Even data based on the "poverty line" show that children in most Western Balkan countries are threatened above average. In Albania, Macedonia, Bosnia and Herzegovina and among the Albanians in Kosovo, poverty incidence increases with the number of children in the household. In the Republic of Srpska as much as one half of children under 7 years old live in poor households. In FYR Macedonia households with more than three children are at higher risk. In Serbia, although poverty is higher in households without children, children aged 7-14 show an above average poverty risk. Only in Croatia do children face an average poverty risk.

What is particularly alarming is the fact that in the Western Balkan countries there are still cases of child malnutrition in children under five (UNICEF data).³¹ In Albania almost one in seven children is underweight. Furthermore, in FYR Macedonia and Bosnia and Herzegovina 1% of children under 5 and in Albania 4% are classified as severely underweight.³² In Serbia and Montenegro and Croatia the incidence of severe child malnutrition has not been recorded.

The Elderly

As a rule the elderly are an especially vulnerable category. That is precisely why pension insurance exists. On one hand it should replace the function of security provided by the traditional family in the past and on the other it should smooth out the poverty risk during the life cycle. Together with

³¹ <http://www.unicef.org/infobycountry/index.html>.

³² Since there is no evidence of hunger in Albania and there is evidence of malnutrition, the second target of the first MDG is to "halve, between 1990 and 2015, the proportion of people lacking balanced nutrition" (UNDP, 2002a: 14; Republic of Albania, 2004: 18).

children, the elderly have a higher poverty risk than the average person in most EU countries.

In the Western Balkans the vulnerability of the elderly is the most pronounced in Croatia and Serbia, which also have the most intensive population aging process. In Croatia, 40% of the poor lived in households with a retired household head and without regular earnings from employment (World Bank, 2001a: 23), while the elderly faced a higher poverty risk. In Serbia as well those over 65 years of age form a large part of the poor (over one fourth) and face a higher poverty risk, 40% higher than the average population. The most vulnerable are the farmer pensioners and the elderly without pension (Republic of Serbia, 2003: 13; CLDS, 2003: 30).

In other Western Balkan countries, such as Bosnia and Herzegovina, households with elderly members, or headed by the elderly, seem to be close to the average poverty rate and constitute a minority among the poor (World Bank, 2003a, Vol. I: 34). In FYR Macedonia and Albania although the elderly are not vulnerable above average and do not constitute the majority among the poor, there is an evident problem of the elderly in rural households who live only off social assistance or have extremely low pensions (FYROM, 2000: 2; Republic of Albania, 2001: 29). In Kosovo the elderly are vulnerable primarily in Serbian households.³³

Policy Options and Challenges

If a society at the same time needs to secure economic growth, protection of vulnerable groups, complete transition and decentralization and fulfill the conditions for becoming part of the EU it seems like mission impossible. Striking a balance between the social and economic functions of the state, finding the equilibrium in dividing the roles between the central and local governments, maintaining the necessary specificities while respecting European standards are what distinguish successful from unsuccessful countries in transition.

Some Preconditions for Poverty Alleviation

According to different national strategic documents of the Western Balkan countries, some of the most important joint macroeconomic preconditions for poverty alleviation are: a significant increase in GDP (for the majority of countries over 5% in the next three years), change of GDP structure, coupled

³³ The typical Serb household in extreme poverty shares with the Albanian the rural residence, the low level of education and the agricultural activity. However it is generally very small, headed by an elderly and with no children (World Bank, 2001b, Vol. I: ix).

with an increase in the share of investment and domestic savings; achieving and/or maintaining macroeconomic stability, primarily through decreasing public consumption and fiscal deficit and achieving foreign economic balance (decreasing the current deficit in the balance of payments and decreasing the share of foreign debt).

Other preconditions linked to the economy are: continuing the privatization process and increasing the share of the private sector, further restructuring the economy and public enterprises, finalizing fiscal reforms and changing budget procedures, further modernizing infrastructure (transportation, energy, telecommunications, communal infrastructure, irrigation) and continuing reforms and restructuring of the banking sector.

Judicial and public administration reforms, continued building and improved functioning of control mechanisms and combating corruption represent an additional set of preconditions that need to be fulfilled so that economic reforms can succeed.

Decreasing Unemployment and Job Creation

The Western Balkans is characterized by high unemployment and jobless growth, as well as the still incomplete restructuring process that could potentially lead to further unemployment and widespread informal economy. Also, poverty analyses show that unemployment, a relatively low participation on the labor market and inadequate employment in terms of low salaries are important causes of widespread poverty. Having in mind these features, almost all national plans and programs have marked employment growth and job creation as the most important single mechanism for exiting poverty.³⁴

Western Balkan countries have mostly changed their labor legislation in order to make it more suitable to the demands of a market economy. In spite of this, different analyses and research show that the flexibility of the labor market is insufficient. The employment protection legislation for all types of employment is still more rigid than in Europe, especially for temporary employment and collective dismissals (Mizsei, Maddock, 2004: 11).

The labor market is largely fragmented between the formal and informal sectors, and the only really flexible market is the "gray labor market". This, however means that a large number of people engaged in the gray economy throughout the region are unprotected, both in terms of exercising their labor

³⁴ Thus, for example, Croatia formulated its national MDG 1 as the "uprooting of absolute poverty by strengthening the economy and stimulating legal employment, with effective eradication of the so called 'gray economy'" (Republic of Croatia, 2004: 4).

rights (dismissal procedures, paid leave of absence, sick leave), and in terms of social insurance.

The most important mechanisms for employment growth can be found primarily in attracting investments by creating the corresponding business and institutional environment, decreasing administrative and financial barriers for the development of small and medium sized enterprises and by strengthening an organized support system for this sector, but also by further increasing labor market flexibility.

Most countries have formulated their national employment programs and some have developed special programs for the employment of vulnerable groups (persons with disabilities, Roma, older unemployed, youth seeking their first employment, refugees and IDPs). A number of countries have initiated, mostly in the form of pilot projects, employment programs for unskilled workers to work in environmental, communal and infrastructure-related, small-scale projects.

In all countries changes are being implemented in the way that national employment services work and function. The objective of these changes is to transform these institutions from performing passive registration of the unemployed and payment of unemployment benefits into providing to a larger extent active employment measures. In addition, in all countries a greater emphasis is being placed on advice to job seekers, job clubs, training, advice on small businesses and business incubators.

Some Challenges

- Further reallocating budgetary funds for development programs, investment, support to small and medium sized enterprises, active employment measures;
- Decreasing the gray economy in conditions where control mechanisms do not function properly and the impossibility of the state to provide options for employment to those who are in the gray economy;
- Decrease of labor costs through decreasing taxes and contributions, when the social funds are lacking sufficient resources for the already low pensions, adequate health care and benefits for the increasing number of laid off workers;
- Including the socially excluded groups into the labor market (Roma, refugees, IDPs and others), increasing the participation of women (in order to have an additional income in the family) and extending the participation of older workers (in order to ease the pressure on the pension funds), when general employment is low and when many are being left without jobs due to restructuring;
- Attracting foreign investments, especially in the area of Greenfield investments, in conditions of fragile political stability.

Education

All European countries aim to improve the general level of education of the populations. Recent studies demonstrate that one additional year of schooling can increase aggregate productivity by 6.2% for a typical European country, even more in Southern Europe (European Commission, 2004a: 11). For new EU member states which in terms of upper secondary education outperformed most of the EU-15 it is estimated that the level of education will be an important support in tackling the multidimensional challenges ahead (European Commission, 2004c: 26).

This unfortunately, is not the case of the Western Balkan countries, where even the most developed Croatia lags behind other transition economies with respect to post primary schooling (World Bank, 2001a: ix).

Even within primary education, as may be seen from different country reports, drop-out rates are higher than in EU countries. This is especially significant for certain vulnerable groups such as Roma, refugees and IDPs. In Albania, reinforcement of traditional beliefs that girls should stay at home may encourage some girls to drop out (UNDP, 2002a: 25).

Obligatory preschool (preparatory) education and adopting the concept of inclusive education is particularly important for children with special needs, but also for other marginalized groups. In spite of everything, for most Western Balkan countries it can be concluded that achieving the MDG on universal primary school enrolment is within reach³⁵ and that the challenge is actually to increase secondary school enrolment.

A simple increase in the education coverage of the population is, however not enough. Improving the *quality* of education is equally important, having in mind the actual levels of proficiency (PISA study) which raised concern for countries in transition (European Commission, 2004c: 26). Additionally, the Western Balkan countries face the challenge of education reform that will contribute to making education more flexible and more relevant to the labor market, adopting the concept of lifelong learning, spreading knowledge necessary for relevant use of ICT, etc.

Increasing the coverage of the population and increasing the level and quality of education is primarily significant for the youth and for exiting the poverty circle that is transmitted from one generation to the next. For the youth there is an important message derived from all poverty research: *the level and risk of poverty decreases with the increase in education level.*

³⁵ Although it must be noted that not even a high coverage such as that in the EU is actually sufficient if we have in mind that 17.2% of young Europeans aged 15 do not have minimum necessary skills (reading, writing, arithmetic) (European Commission, 2004a: 12).

However, in order for present generations to exit poverty it is crucially important to develop adult education programs for simultaneously completing primary education and acquiring the basic qualifications for employment, as well as the reform of vocational training.

Some Challenges

- Increase the share of budget expenditures for education to the level of European average in the situation where most countries need to decrease public expenditure;
- Motivate young people, girls and boys, to continue their education when specific unemployment rates for secondary education are high, in some countries even the highest,
- Rationalize education costs while securing that children in small isolated rural areas have adequate access to education;
- Formulate programs for further vocational training and retraining in conditions when the economy is not strong enough so that it can clearly articulate and specify the needs for certain job profiles.

Other Challenges

Economic development, creation of new jobs and gaining better qualifications cannot help everyone. As stated in the Joint Memoranda on Social Inclusion in the new EU member states "although sustainable economic and employment growth is essential it is not sufficient to ensure social cohesion" (European Commission, 2004c: 4). For one part of the population, the elderly, persons with severe disabilities, children without parental care, the most important is to build *social safety and social services networks*. Still, it must not be forgotten that financing social welfare depends on economic development and budget availability. From this viewpoint economic growth is also important for social welfare.

Weaknesses in the existing system of benefits for the poor in most Western Balkan countries are reflected primarily in the insufficient amounts of provided assistance, a small coverage of the vulnerable population and poor targeting. Significant problems also surfaced in the situation of premature decentralization of social assistance and other social benefits. It turned out that in these conditions the poor local governments cannot secure even the minimal protection and therefore, in the country as a whole, social safety nets for the most vulnerable population do not function. In the area of social services, in all countries the system of alternative services is insufficiently developed (foster care, day care centers for persons with special needs, home

assistance for the elderly and disabled, etc.). Thus, even today there is a relatively large number of children in institutions and de-institutionalization is slow (Stubbs, Gerovska Mitev, 2005: 59).

The most important challenges in the area of social welfare are: making available budgetary funds for better coverage of poor and for financing special programs for the inclusion of vulnerable groups, establishing inter-sectoral coordination as a necessary prerequisite for solving multidimensional problems of vulnerable groups and improve targeting in the conditions of a widespread gray economy.

Although almost all countries have initiated reforms in the *health sector*, they are, for the most part, going relatively slowly. The general objective of the reforms, like in the EU is to improve the performance of health schemes in terms of quality, access and financial viability (European Commission, 2004a: 26). The majority of the reforms are going in the direction of changing the mode of financing health care services, formulating or reformulating the package of basic health care services and redistribution of financial resources, towards preventive and primary health care. The challenges in this area are a result of the fact that there are no ready-made solutions and recipes cannot, like in the economic sphere, be copied from developed countries which are also facing the need for changing their own health care systems. One of the greatest single challenge is surely the fight against corruption that causes significant out of pocket expenses and thus excludes the poor from access to health services.

Social inclusion and poverty alleviation also entail specified answers and challenges in some other areas as well, primarily in the area of environmental protection, housing, participation in decision making and human rights.

Conclusions

How to Proceed with Aligning the European Union Social Inclusion Process and the Millennium Development Goals in the Western Balkan Countries

Bearing in mind the commitment of the Western Balkan countries to meet the globally agreed goals manifested in the MDGs, their efforts to proceed with anti-poverty strategies and aspirations in terms of EU accession, it is of the utmost importance "to explore the synergies between these agendas to ensure that the processes reinforce each other" (Chairperson's Summary and Recommendations, 2004). It is crucial for the international donor community to continue its work in support of Governments' poverty reduction and social

inclusion efforts. Especially where relevant PRSP processes take place, coordination with other partners such as the World Bank is important. This is valuable in view of the fact that most countries face limitations in terms of administrative, statistics, management and leadership capacities which are necessary for matching the different donor agendas.

Most recommendations formulated at the Workshop on Aligning the European Union Social Inclusion Process and the Millennium Development Goals in Vilnius in April 2004 can be directly applied to the Western Balkan countries. In the Western Balkans national authorities, the EC and UNDP should also cooperate to support countries "in developing social inclusion policies and framework, including learning from the EU's open method of coordination"; to "build local level capacities to develop and implement programmes to tackle social inclusion issues, and in doing so, promote participatory and partnership approaches" and to "direct more efforts and resources to addressing the needs of those groups most at risk of social exclusion" (Chairperson's Summary and Recommendations, 2004).

Among the recommendations, several are of immediate importance for the Western Balkan countries.

Particularly relevant is the recommendation to establish "cooperation between national authorities, UNDP and EC with respect to monitoring and analyzing social exclusion" (Chairperson's Summary and Recommendations, 2004) in order to achieve synergy.

There are two main preconditions for analyzing and monitoring social exclusion. One is to define clear indicators. In this context the MDG indicators could contribute to the social inclusion (cohesion) monitoring process as tertiary (national) indicators. Most Western Balkan countries either produced or are in the process of producing their MDG Reports and nationalizing/localizing their MDG indicators. It would, however be important to implement regular MDG monitoring, and, as was recommended at Vilnius as well, to use the MDG process and reports for dealing with specific poverty issues and for creating public awareness about social inclusion and poverty reduction. Overall, the indicators should be formulated having in mind the European perspective of the Western Balkans, but also their present specificities.³⁶

³⁶ Thus for example P.Stubbs and Gerovska Mitev have tried to develop a range of indicators crucial for monitoring poverty reduction and social inclusion in the countries of the Western Balkans, incorporating as far as possible a child-centred approach (Stubbs, Gerovska Mitev, 2005).

Formulating indicators, however, is not very useful if we have in mind that the last census in Bosnia and Herzegovina took place in 1991 and in Kosovo in 1981 and that the statistics in many Western Balkan countries lack capacity. For different reasons poverty surveys are also not carried out regularly. Therefore, the second precondition for analyzing and monitoring social exclusion, is to strengthen the capacity of national statistics offices to collect, present and disseminate data disaggregated by sex, ethnicity and region, which is also one of the recommendations from the Vilnius Conference.

Finally, as much as the lagging and sluggish transition in most Western Balkan countries represents a handicap, these countries have a unique opportunity to use "shortcuts" on their roads to becoming modern and developed societies. Experiments, successes, pain and failures experienced by new EU member states in the very same areas and facing similar challenges, present a rich source of inspiration and experience. It is just necessary to know how to learn from experiences of others and how to build on and adapt examples of good practice to the specific context of the Western Balkans.

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List of Abbreviations and Acronyms

BiH	Bosnia and Herzegovina
CAS	Country Assistance Strategy (referring to the World Bank)
CEE	Central and East Europe
EC	European Commission
EU	European Union
FAO	Food Agriculture Organisation
FYROM	Former Yugoslav Republic of Macedonia
FYR Macedonia	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
HBS	Household Budget Survey
HDI	Human Development Index
ICT	Information Computer Technology
IDPs	Internally Displaced Persons
ILO	International Labour Organisation
JIM	Joint Inclusion Memoranda
LFS	Labor Force Survey
LSMS	Living Standard Measurement Survey
MDGs	Millennium Development Goals
NAP	National Action Plans (referring to the EU Social Inclusion)
ODA	Official Development Assistance
OSCE	Organisation for Security and Co-operation in Europe
PA(s)	Poverty Assessments (conducted by the World Bank)
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
SAA	Stabilisation and Accession Agreement
SAM	Serbia and Montenegro
SEE	South East Europe
TFR	Total Fertility Rate
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund

Gordana Matković

Overview of Poverty and Social Exclusion in the Western Balkans

S u m m a r y

During the last 15 years the entire Western Balkan region has undergone dramatic changes. With the fall of the Berlin wall and the disintegration of the former Yugoslavia, new states were formed and transition started, although in some countries it was quite delayed. Simultaneously, during the nineties, much of the region experienced wars and destruction, waves of refugees, internal displacement of population, devastation of the economy, demolition of institutions and impoverishment of citizens.

Absolute poverty, determined through the estimation of household consumption at which families, after paying for essential non-food expenditures just attain minimal nutritional needs, in almost all of the Western Balkans is still relatively high, and is not showing significant tendencies of decreasing. A large concentration of the population and households just above the poverty line additionally demonstrates the challenges faced by the entire region while undergoing the transition process. In some countries extreme poverty, meaning that not even basic food needs can be met, has been registered. On the other hand, relative poverty, defined as the share of those who are excluded from the minimum acceptable way of life in states in which they live, is not particularly high. Due to the relatively high standard of living in the past and high expectations of the population that living standards would increase in a relatively short period of time, the subjective perception of poverty in the entire region is very much present.

Groups that stand out as especially vulnerable and excluded are the unemployed, dependents and the less educated. At the level of the household, in some countries households with many children and elderly households are particularly vulnerable. The poorest often live in the rural areas and in the underdeveloped regions. In addition, especially vulnerable groups, who cannot even be completely covered by standard surveys, but are poor and socially excluded by many indices are the Roma, refugees and IDPs and persons with disabilities.

Concurrently undergoing transition, post conflict reconciliation and reconstruction and striving to pursue their European Union future, the Western Balkan countries face many challenges. One of the greatest challenges is to focus on programs and activities that will lead to equitable and sustained economic growth that will also benefit the vulnerable groups.

Almost all Western Balkan countries, through their national plans and programs, have marked employment growth and job creation as the most important single mechanism for exiting poverty. The second priority may be an increase of education coverage and improving the quality of education, although reduction of poverty and social exclusion presupposes improvement in the areas of developing appropriate social safety nets, health care systems, securing adequate housing, participation in decision making and protection of human rights.

Bearing in mind the commitment of the Western Balkan countries to meet the globally agreed goals manifested in the MDGs, their efforts to proceed with anti-poverty strategies and aspirations in terms of EU accession, it is of the utmost

importance to explore the synergies between these agendas to ensure that the processes reinforce each other.

Key words: *poverty, social exclusion, Western Balkans, vulnerable groups*

Gordana Matković

Pregled siromaštva i socijalne isključenosti u zemljama zapadnog Balkana

Rezi me

Čitav region Zapadnog Balkana poslednjih 15 godina prolazio je kroz dramatične promene. Sa raspadom bivše Jugoslavije formirane su nove države, a sa padom Berlinskog zida započela je i tranzicija, iako u nekim zemljama sa velikim zakašnjenjem. Paralelno, najveći deo regiona je tokom devedesetih godina prošlog veka iskusio ratove i razaranja, međuetničke sukobe, talase izbeglištva, raseljavanje, propadanje privrede i osiromašenje stanovništva, razaranje institucija.

Apsolutno siromaštvo, koje podrazumeva da mogu da se zadovolje samo minimalne potrebe za hranom i drugim neophodnim troškovima, još uvek je relativno visoko u gotovo svim zemljama Zapadnog Balkana i ne pokazuje značajniju tendenciju smanjenja. Velika gustina stanovništva i domaćinstava neposredno iznad linije siromaštva dodatno oslikava teške izazove sa kojima se čitavo područje suočava, prolazeći istovremeno kroz proces tranzicije. U pojedinim zemljama još uvek je prisutno i ekstremno siromaštvo, koje podrazumeva da ne mogu da budu zadovoljene ni bazične potrebe za hranom. S druge strane, relativno siromaštvo, definisano kao udeo domaćinstava koja ne mogu da ostvare minimalno prihvatljiv nivo životnog standarda u zemlji u kojoj žive, nije posebno visoko. Zahvaljujući visokom životnom standardu u prošlosti i velikim očekivanjima u pogledu njegovog brzog oporavka, osećaj subjektivnog siromaštva široko je rasprostranjen u celom regionu.

Među ugroženim grupama, isključenim iz ekonomskog i društvenog života izdvajaju se nezaposleni, izdržavana lica i nedovoljno obrazovani. Na nivou domaćinstava u pojedinim zemljama posebno su ugrožena domaćinstva sa mnogo dece i staračka domaćinstva. Najsiromašniji često žive na selu i u područjima koja su tradicionalno siromašna. Dodatno, kao posebno ugrožene grupe, koje se standardnim anketama često ne mogu ni obuhvatiti, ali koje su po mnogim indicijama siromašne, su Romi, izbegla i raseljena lica i osobe sa invaliditetom.

Istovremeno prolazeći kroz tranziciju, postkonfliktnu obnovu i rekonstrukciju i težeći evropskoj budućnosti, zemlje Zapadnog Balkana suočavaju se sa mnogim izazovima. Jedan od najvećih izazova je fokusiranje na programe i aktivnosti koji će obezbediti ravnomeran i održiv privredni razvoj, uz istovremeno poboljšanje položaja i ugroženih grupa.

Gotovo sve zemlje Zapadnog Balkana su u svojim nacionalnim planovima i programima izdvojile rast zaposlenosti i stvaranje novih radnih mesta kao najvažniji pojedinačni izlaz iz začaranog kruga siromaštva. Sledeći prioritet je veći obuhvat obrazovanjem i poboljšanje kvaliteta obrazovnih programa, iako smanjenje socijalne isključenosti i siromaštva podrazumeva i poboljšanje mreža socijalne sigurnosti,

unapređenje zdravstvenog sistema, obezbeđenje adekvatnih uslova stanovanja, participaciju ugroženih grupa u donošenju odluka, poštovanje ljudskih prava.

Imajući u vidu opredeljenost zemalja Zapadnog Balkana da ostvare Milenijumske razvojne ciljeve, napore koji se ulažu u programe za smanjenje siromaštva i aspiracije u pogledu evropskih integracija, izuzetno je značajno da se ostvari sinergija između ovih procesa i njihovo međusobno osnaživanje.

Ključne reči: *siromaštvo, socijalna isključenost, Zapadni Balkan, ugrožene grupe*