**Summary**

**Policy priorities and inefficiencies in program execution impair the effectiveness of Serbia’s social protection system.** Social assistance programs do not sufficiently reach the poor, and the support provided does not adequately cover beneficiaries’ essential needs. Emphasis on achieving pro-natal objectives is crowding out poverty-targeted programs, within poverty-targeted programs, overly strict eligibility criteria and case management challenges further reduce coverage. The availability of social services remains limited, particularly in poor localities, and caseloads are excessive. Poor coordination across social assistance and social services makes it difficult to provide the services needed by clients and wastes money. Pension benefits (relative to wages) are lower than the EU average, and beneficiaries can only expect to replace half of their income as retirees. There are no targeted measures to protect the elderly poor (almost 10 percent of the elderly do not receive a pension). And the aging of the population and an increase in informal work are making it difficult to finance adequate pensions, improve coverage, and maintain financial sustainability. Employment and labor market programs have very limited outreach. Finally, legal frameworks and information systems were not able to support a rapid increase in coverage in social assistance during the COVID-19 pandemic. Labor market programs were not reorganized to provide online skills training or address new skill gaps.

**Recommended key areas of reform**

- Benefits should be shifted from categorial programs to poverty-targeted programs, and income eligibility criteria for different targeted benefits should be harmonized and also relaxed.
- Public and private provision of social services should be expanded and coordination across social assistance and social services improved.
- Social services caseloads should be reduced and training for case management approaches should be provided.
- The pay-as-you-go (PAYG) pension system should be adjusted to improve system finances and increase benefits, for example through reducing the options for early retirement and its generosity.
- The voluntary pension program should be expanded.
- The Farmers Pension should be phased out and assistance provided to the elderly poor.
- The provision of private labor market services should be expanded through improving procurement efficiency.
- Resources for labor market programs should be increased.
- Active labor market programs should take into account information on labor markets and job-seeker characteristics, and program design should reflect the demand for skills over the long term.
- The ability of poverty-targeted programs to respond to shocks quickly should be improved, supported by high-frequency data systems and with appropriate financing mechanisms.

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1 This note is one of a series that reviews the challenges facing social protection programs in the Western Balkans. It is based on a longer version prepared by the World Bank and funded by the European Union, as well as on the Social Protection Notes developed under the Serbia Human Capital Review Technical Assistance.
Cash transfers to support the poor and vulnerable

Public spending on social assistance has fallen and its composition has shifted further away from poverty-targeted programs. Expenditures on social assistance fell from 2.07 percent of GDP in 2013 to 1.96 percent in 2020, reflecting some decline in poverty-targeted programs and increased spending on categorical, pro-natal benefits, including wage compensation during maternity leave (the largest social assistance program), childcare and extended childcare leave, and the parental allowance. Categorical programs now account for 77 percent of total social assistance expenditures. During the COVID-19 pandemic, expenditures related to the poverty-targeted programs Child Allowance (CA) and Financial Social Assistance (FSA) actually fell.2

Social assistance support for the poor is low. The coverage of the poorest quintile by social assistance nearly doubled between 2014 and 2019, but remains lower than 50 percent, compared to almost 90 percent or more in new EU members such as Slovakia, Hungary, and Romania.3 Moreover, the average FSA and CA benefits amount to only 20 and 10 percent, respectively, of the absolute poverty line in Serbia (single adult) for the poorest quintile. Low coverage is due to overly strict eligibility criteria, limited budget allocations and lack of transparent systems for identifying, selecting, and monitoring beneficiaries. Caseworkers’ significant discretion in determining whether households’ actual or potential income makes them eligible for benefits based on income, together with high caseloads, results in arbitrariness in decisions and insufficient time dedicated to assisting applicants.

The FSA program may discourage recipients from working. Households just below the eligibility threshold have little incentive to earn additional income that will result in reduced benefits. While able-bodied FSA beneficiaries are required to register with the National Employment Service (NES) and to actively seek and accept job offers, job search services are limited.

The government is currently developing an integrated social protection information system (SPIS), including a social card registry (SCR) to help strengthen efficiency and access. Notable recent progress includes the option to submit applications electronically. The SCR, which is now in place, will improve eligibility determinations, increase efficiency and transparency, and improve the ability of the social assistance system to respond to economic crises.

While the government was successful in limiting impact of the pandemic on growth and employment, social assistance programs were incapable of responding quickly. Measures to protect social protection workers and beneficiaries from infection, provide for automatic renewal of eligibility and facilitate electronic application helped to maintain caseloads. However, coverage did not expand, as program eligibility is based on identifying people in chronic, long-term poverty and the application process remains paper-based. Instead, the government undertook two untargeted transfer programs (to all adults and pensioners), which cost over three times the amount spent on poverty-targeted programs.4

Social services

The 2011 Social Welfare Law established an appropriate legal framework for social care services, but the availability of services remains limited, particularly in poor localities. According to the latest available data (2015), about 9 percent of the population was covered by social services in some form, which was low compared to other European countries.5 In 2016, only 15 percent of the elderly were covered by public institutional care, day care or home care services, with long waiting lists in larger cities. The shortage of residential and home services, coupled with free health care for the elderly, shifts the burden back into the health system and contributes to high and expensive in-hospital care. Services for independent living and shelters as well as counselling, therapy and socio-educational services were available only in big cities. The coverage of children and youth with developmental and other disabilities is low. The government has made progress in shifting childcare from residential institutions (which may harm children’s well-being and development) to foster care, although high turnover among families and low capacity of many foster families impairs care.6

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1 UNICEF and World Bank (2021b)
2 Data from Social Protection Expenditure and Evaluation Database (SPEED) (2020)
3 These two programs were implemented in the first half of 2020
4 Based on case management and assumes each case is a new person; as this is often not the case, the share of population covered is likely overestimated by this approach
5 Hirose and Czepulis-Rutkowska (2016)

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The provision of social services is limited by administrative difficulties. Caseloads increased when the 2013 ban on public employment reduced the Center for Social Work (CSW) workforce by 18 percent from 2014-18. Training is provided on a limited and ad hoc basis. Case management (a systemic approach to assessing activities, arranging access, planning, coordination and evaluation), introduced in the CSW in 2008, is still not fully implemented, in part due to high caseloads and extensive reporting requirements. Clear criteria and procedures for referrals of clients for services (or social assistance) are lacking.

Efforts to increase the funding of social services in poor localities have been only partially successful. Central government transfers are earmarked for services provided by local governments in less-developed areas and those that have institutions for residential care undergoing transformation or that are developing innovative and important social services. However, some eligible local governments represent relatively well-off municipalities. And some local governments receiving transfers simply replaced, rather than expanded, financing on social protection.

The COVID-19 pandemic initially interrupted social care services for the vulnerable elderly and persons with disabilities. Caregiver shortfalls and public transport restrictions prevented provision of some home care services. In many municipalities, caregivers no longer entered homes but merely deposited food and medicine outside. Day care and child attendant services were likewise discontinued during these months. Local governments organized call centers to collect requests for the delivery of food and medicine, and to provide information and psychological support services.

Pensions

Challenges to financing the Serbian pay-as-you-go pension system will increase going forward. While the 2014 pension reform resulted in a decline in spending on pensions from 12.3 percent of GDP in 2014 to 10.3 percent in 2020, low birth rates and high outmigration is reducing the working-age population and informal employment (where workers do not contribute to a pension) is increasing. At 1.3, the ratio of pensioners to contributors (the support ratio) is now one of the lowest in Europe. To maintain the share of pension contribution revenue in GDP in 20 years at levels observed in 2019, employment rates, the share of formal employment and wages would all have to increase by a combined 15 percentage points in real terms at least. This would be extremely difficult to achieve.

Serbia’s reforms to address the sustainability of pension financing have come at the price of low benefit levels. The ratio of the average pension to the average pre-retirement income of pensioners fell from 61 percent in 2012 to 50 percent in 2020. When measured as the ratio between average pensions and average gross wages, benefit adequacy is higher in Serbia than in other Western Balkan countries but lower than in most European countries and below the EU average. In addition, almost 10 percent of Serbians aged above 65 are not covered by any pension scheme, while the poor are less likely than the non-poor to receive a pension (there is no social pension—that is, where contributions are not required—for the elderly poor).

Voluntary savings schemes, meanwhile, are underdeveloped. The coverage of voluntary pension plans has stagnated around 10 percent of total employment and with assets equal to 0.85 percent of GDP. High labor mobility and labor market insecurity reduce the length of employment, thus undermining the system. Incentives to participate are also limited, as voluntary retirement contributions are exempt from taxes up to a level equivalent to about 8 percent of average wages, which is quite low.

Employment and labor market policies

Serbia spends comparatively little on unemployment benefits and even less on active labor market programs (ALMPs). In 2019, Serbia spent .07 percent of GDP on active labor market programs (assistance with job search and training for the unemployed) and .29 percent on unemployment assistance, compared to an average of .36 percent and .63 percent of GDP, respectively, on average in the EU. The budget for the National Employment Service (NES) increased by 20 percent in 2020 with the pandemic but remained well below EU levels of expenditures.

The coverage of labor market programs is low. Unemployment benefits are claimed by only 6 percent of the registered unemployed. While registering as unemployed requires entering a profile in the system and meeting with caseworkers, participation in non-compulsory forms of labor market programs is very limited: skills development training participants numbered 10,000 in 2019 and 15,000 in 2020, while private sector incentive schemes (such as, entrepreneurship programs and wage subsidies for new jobs) and public works reached 2 and 1 percent, respectively, of NES unemployed clients.

The design and administration of training programs faces significant challenges. Training is largely focused on on-the-job training for recent university graduates, rather than inclusion of more vulnerable populations or reskilling of adults. While NES rationalized its caseloads by diminishing the regional variation across branch offices, the average caseload in 2020 was 816 jobseekers per caseworker, many times higher than the ILO recommendation of around 100. NES does not use available tools which would increase efficiency, for example statistical profiling and a job-portal function providing job-matching services. Programs are not systematically evaluated. The ability of private contractors to participate in training is limited due to the complex and costly procedures involved in receiving the accreditation required to participate, as well as lengthy, complex and repetitive procurement requirements (a new public procurement law is designed to address this). Opportunities for lifelong learning and support for prolonging productive working life are only nascent.

During the COVID-19 pandemic the NES managed to maintain continuity in basic service provision and to scale-up or reform the ALMPs to some extent. Registration and benefit claims as well as job-matching services were transferred online. The registration of unemployed dropped during lockdowns but did not surge as restrictions were lifted, supporting the general conclusion that formal jobs were protected from the crisis. Some ALMPs were adapted to secure continuity. NES also launched a new program for graduates (My First Salary) and organized the First Virtual Employment Fair in 2021. In 2022, the NES is launching an online training platform to replace in-person training.

Recommendations

Cash transfers: (i) shift benefits from categorical programs to poverty-targeted programs; (ii) for poverty-targeted programs, clarify and relax eligibility criteria and limit discretion in the treatment of possession of movable assets; (iii) improve outreach efforts with a particular focus on rural areas and households with children; (iv) establish a one-stop-shop for social assistance and social care services; (v) harmonize income eligibility for different targeted benefits and improve the capacity for eligibility determinations in local government; (v) continue to develop and implement the Social Protection Information System (SPIS) and the Social Card Registry; (vi) integrate social assistance and labor market services; (vii) subject to budget availability, increase benefit amounts in poverty-targeted programs; and (viii) promote more effective coordination between the Center for Social Work (CSW) and local government.

Social services: (i) accelerate steps to move children from institutional to foster care; (ii) create a one-stop-shop across delivery systems; (iii) reduce caseloads and ensure adequate staffing and a clearer division of labor in the Center for Social Work; (iv) enforce case management approaches and training for CSW staff; (v) develop approaches to coordinate and combine social services; (vi) increase the scope and quality of information for prospective service users; (vii) continue to expand public and private provision of social care services; (viii) revisit eligibility criteria for earmarked transfers; (ix) establish an integrated information system to monitor vulnerable populations; (x) review the relevance of the Caregiver Allowance against vouchers or paid care leave; and (xi) consider training for informal (family) care workers.

Pensions: (i) adjust pay-as-you-go (PAYG) system parameters to improve financial viability and adequacy; (ii) review the range of options and generosity of early retirement categories; (iii) foster complementary savings mechanisms such as occupational pension plans, voluntary savings plans and voluntary low-cost interventions appealing to the self-employed; (iii) develop policies on active aging and delayed exit from working life; (iv) gradually phase out the Farmers Pension and relocate some

The employment strategy for the period from 2021 to 2026 addresses many of these recommendations and is available at: https://www.minrzs.gov.rs/sr/dokumenti/ostalo/sektor-za-rad-i-zaposljavanje, in Serbian and English.
associated fiscal costs; and (v) introduce a social pension to reduce the risk of poverty in old age.

**Labor market policies:** (i) increase the efficiency of procurement of quality private active labor market program (ALMP) providers; (ii) establish rigorous monitoring and evaluation procedures and data systems based on best practice; (iii) systematically align ALMP programs with information on labor markets and jobseeker characteristics, and include a long-term skill needs perspective; (iv) reduce the NES caseload burden by updating the beneficiary registry, reducing administrative tasks for caseworkers and implementing technical tools such as statistical profiling or information systems analytics; (v) increase government resources for ALMPs; and (vi) continue to develop the labor market information system (LMIS).

**Emergency response to shocks:** (i) develop lessons learned from the COVID-19 response; (ii) develop a strategy on remedial action for vulnerable groups hardest hit by COVID-19; (iii) establish disaster risk protocols to allow the FSA (or other key programs) to expand coverage in response to shocks; (iv) identify financing mechanisms, including the reserve fund and budget reallocation; and (v) continue to build the Social Protection Information System (SPIS) and LMIS to develop sources of high-frequency data.