SERBIA

Good morning, capitalism! Good bye social protection!

While making notable progress towards macroeconomic stability and a functioning market economy through privatization and structural adjustment, Serbia has not avoided the negative impacts of these processes on the population. The level of social and economic rights achieved during the previous socialist period has been dramatically lowered, while human insecurity has increased, justified by the need to attract foreign investment and stimulate economic growth.*

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Serbia's economic, social and human development is still heavily marked by the legacy of the past and the turbulent events of the 1990s. The dissolution of the former Yugoslavia and the associated hostilities and armed conflicts were followed by the imposition of international sanctions, which cut off important markets and transit routes to other countries. These circumstances, in addition to the Kosovo crisis and the NATO intervention in 1999, have severely disrupted economic activities and resulted in a high level of uncertainty in all the successor states.

In the past 15 years, Serbia has undergone several state transformations, from a 'unit' within the Socialist Federal Republic of Yugoslavia to an independent state after the dissolution of the state union with Montenegro, which declared independence in 2006. Post-conflict consolidation and recovery is still an ongoing process.

One of the paramount foreign policy priorities today is rapprochement with the European Union, with entering the EU as the ultimate goal. Relations with the EU are progressing in the framework of the Stabilization and Association Process and the European Partnership as key instruments of pre-accession strategy for potential EU membership candidates. However, this process has not always run smoothly. In May 2006 negotiations for a Stabilization and Association Agreement with the EU were suspended for almost a year, due to Serbia's alleged failure to cooperate with the International Criminal Tribunal for the Former Yugoslavia. After the parliamentary elections in January 2007 and the establishment of the new government in May 2007, the international community resumed economic support for Serbia and encouragement to continue on the path of transition.

* Due to the recent separation of Montenegro in June 2006 there are no available data on BCI and GEI components for Serbia alone.

Late transition, usual recipes

Due to the political upheaval and violent conflict in the region during the 1990s, Serbia's transition to a market economy has been delayed in comparison with the countries in Central and Eastern Europe.

The country's structural adjustment programmes (SAPs), dictated by the International Monetary Fund (IMF), have features familiar from previous SAP experiences in other transition countries, requiring the removal of all obstacles to international trade and foreign investment, prompt privatization, labour market flexibility and reduction of all social costs. Serbia started the transition from a very weak position, with a destroyed regional infrastructure and regional market, a high level of political uncertainty, and weak institutions. Economic sanctions, hyperinflation, under-investment, and loss of markets after the break-up of the Socialist Federal Republic of Yugoslavia led to a 50% decline in output between 1990 and 1993. By 2000, recorded per capita GDP had fallen to USD 1,042, about one half of its 1990 level.

In 2000, under the auspices of the Stability Pact for South Eastern Europe (SPSEE), the World Bank and its main development partners in the region (European Commission, European Bank for Reconstruction and Development, Organisation for Economic Co-operation and Development, European Investment Bank, Council of Europe and Council of Europe Development Bank) adopted a comprehensive approach to development in the SEE. The priorities established for domestic sector reform include accelerating privatization and structural reforms; alleviating constraints to foreign direct investment; increasing flexibility in labour market legislation; promoting trade liberalization; reducing the size of the public sector and the overall level of public spending; and reorienting state functions to meet the needs of the market economy (World Bank, 2000). The reform process is being guided by the World Bank and IMF. The SPSEE Working Group on Trade Liberalization and Facilitation was established in 2001 to foster regional economic integration and trade liberalization within the World Trade Organization.

After the October 2000 overthrow of Slobodan Milosevic, the new government adopted a comprehensive economic policy based on this framework. This has resulted in slow but positive economic trends towards increased macroeconomic stability. In 2005, real GDP grew by 6.3% compared to 5.1% in 2001. Growth remained strong at 6.7% year-on-year, and total industrial production expanded at a rate of 7.8% year-on-year. The highest growth rates were achieved in sectors which had undergone substantial privatization or restructuring in recent years, such as food and beverages, tobacco, chemicals, rubber and plastic products and base metals. The 2005 current account deficit decreased to 9.8% of GDP from 12.6% in 2004, due to strong growth of exports (up 13.2% year-on-year) and declining imports (down 6.7% year-on-year), although imports still remained at about 2.5 times the level of exports. Capital inflows increased in 2005 and reached EUR 3.6 billion compared to EUR 2.4 billion in 2004. Foreign direct investment rose to about 5.7% of GDP in 2005 from 4.3% of GDP in 2004, reaching over USD 2 billion in 2006, predominantly related to privatization. The annual inflation rate was finally lowered in 2006 to a tolerable 6.6%, while the dinar unexpectedly strengthened relative to the euro.

At the end of 2006, a European Commission evaluation concluded that Serbia has made notable progress towards macroeconomic stability and being a functioning market economy, but that stabilization and reform efforts need to be continued in order to enable it to cope with competitive pressure and market forces within the EU (European Commission, 2006). Unfortunately, these positive macroeconomic indicators do not mean a lot to the majority of the population, which is coping with increasing economic, social and human insecurity.

Privatization of strategic economic sectors

Privatization has been carried out through different models and in three phases, in 1991, 1997 and 2001. The basic scheme in 1997 was primarily insider privatization, carried out through the free distribution of shares to current and former employees. A new wave of privatization started in 2001, based on selling capital through tenders and auctions, and capital transfer without compensation.

As of 15 June 2007, nearly 2,000 enterprises with 313,696 employees had been privatized under the law adopted in 2001, and the privatization process should be completed by the end of 2007. The government has announced its intentions to totally or partially privatize the large public and

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state-owned enterprises in sectors like electricity, gas, oil, forestry, telecommunications, railways, airports and air transport. As part of the privatization process, 15 multinational corporations and several big foreign companies have entered the country. Among others, they now control such strategic branches of the economy as the cement, tobacco and oil industries.

From the perspective of the country's citizens, privatization is seen as a robbery of publicly and state-owned companies by the political and economic elite, due to a lack of transparency, numerous scandals, cases of corruption, violations of the law, and dubious privatizations. Despite promises made by the government, there has been no revision of the privatization process.

Rising unemployment

The formal labour market is characterized by high rates of official and hidden unemployment, low wages, and low mobility of the labour force. Unemployment has continuously increased since the beginning of the economic reforms, due to factors like the high level of bankruptcies and shutdowns, and structural adjustments and privatizations accompanied by the dismissal of 'surplus' workers. For example, after the privatization and sale of the country's largest cement factory, Beocin, to the French cement giant Lafarge in 2002, the number of employees was reduced in two years from 2,400 to 934 (RoS, 2005a).

In 1990, the unemployment rate was 16.7%. At the end of 2001, the registered unemployment rate was 21.8%, and by 2006 it had reached 28.05%. Hidden unemployment is estimated to represent an additional 20% to 24%. Long-term unemployment remained chronic, with an average duration of 44 months in 2005. Youth unemployment is severe and stood at roughly 48%, while the youth employment rate was 18%, in comparison to an average of 40% in the EU.

Privatized companies have played an especially significant role in decreasing employment opportunities. Furthermore, the downsizing of employment in companies is expected to continue in the coming years with the privatization of large, highly overstaffed state-owned enterprises.

Meanwhile, in the newly created market conditions, many people are not able to enter the work force due to a lack of qualifications, or as a result of their age, health problems or disabilities. Those in the worst situation are people who are poor, uneducated, illiterate, elderly, rural dwellers, or members of the Roma community, along with women, who make up the largest marginalized group suffering from discrimination and social exclusion. The National Employment Agency has introduced measures to stimulate employment and self-employment, with special emphasis on women, the elderly, single mothers, the disabled and youth. However, these efforts are insufficient due to an economic environment unfavourable to small and medium businesses and the unwillingness of employers in the private sector to eliminate discriminatory practices.

Violation of workers' rights

Many workers are not included in official statistics because employers in the private sector have a 'habit' of not signing labour contracts, as a way to avoid paying salaries regularly and making the obligatory social security, unemployment and pension contributions for their employees. Workers in the growing private sector are therefore vulnerable to poverty, as they are not eligible for pensions or any other benefits. According to trade union figures, in September 2006, a total of 142,524 employees had either not been paid or had been paid salaries below the minimum wage (USD 0.84 an hour) guaranteed by law (CATUS, n.d.).

The violation of workers' rights is facilitated by weak trade unions and a shortage of mechanisms to protect economic and social rights in general. The country also lacks adequate legislation on foreign investment that would have incorporated international labour standards.

Because of the inability of the private sector to absorb the surplus work force, a growing informal sector has emerged. The participation of the working age population in this 'grey' economy is estimated at around 60%. The informal economy is a significant source of income for the majority of households and is estimated to account for 40% of GDP. These workers fall outside any social safety nets, the protection of trade unions, and legislation related to safer working conditions. Many workers employed in the formal sector are also active in the grey economy, as a means of compensating for low salaries.

Increasing economic and social insecurity

The economic transition has been accompanied by a decrease in the level of economic and social rights gained in the previous socialist period, as well as disregard for international labour and environmental standards and a lack of legislation on corporate responsibility. Full-time employment is no longer guaranteed, many social benefits for families and children have been cut, and access to employment opportunities, health care, social services and education has become more difficult. Due to the privatization of services, many have become overly expensive for the majority of the population, while in the previous system they were free.

Meanwhile, structural changes in employment have led to greater availability of temporary, part-time, seasonal, and low-paid jobs. The new Labour Law (2001) made the procedures for employment and dismissal of workers more flexible and decreased the level of severance pay and other obligations of employers. The government justified the legal changes introduced with the need to make the economy attractive to foreign investors. As a result, the majority of the population is facing increased unemployment and insecurity, in addition to rising crime, corruption, and a widening gap between the poor and the rich, due to the thinning of the middle class and the emergence of a new economic and political elite made up by war profiteers and former communist leaders.

During the preparatory work for the 2003 Poverty Reduction Strategy Paper (PRSP), several household surveys were conducted, showing that 10.6% of the population (800,000 people) lived below the poverty line of USD 2.4 per day, while another 1.6 million people earned only a little more. Adding in other vulnerable groups, such as refugees and displaced persons (700,000), the Roma community, farmers and industrial workers, it is estimated that almost half the population has suffered a decline in their quality of life and the denial of economic and social rights like the right to adequate housing, health care, education, social security and a decent livelihood.

Those at the greatest risk of poverty include the unemployed, the uneducated, the elderly (over the age of 65), children, and households with five or more members. Persons with disabilities (70,000) and retired people, who receive pensions amounting to roughly 60% of the average salary, are particularly at risk of poverty. A reform of the pension system is in progress, as the government has determined that it is no longer sustainable to have two million employed people supporting 1.26 million retired people. In addition to the compulsory social security pension scheme, based on intergenerational solidarity, voluntary pension insurance and private pension funds are being introduced.

Similar to other transition countries, women carry the heaviest burden of the transition process, due to cuts in social services, rising unemployment, and the feminization of poverty. They have been hit especially hard by the loss of the benefits of the previous social welfare system, such as affordable child care, free health care and education systems, and job security. They are typically concentrated in low-paid sectors. Women make up 70% to 80% of employees in public administration, health care, social services, and the hotel and restaurant industry. In addition, women are increasingly shifting from the formal to the informal economy.

The government's analysis of the first year of implementation of the Poverty Reduction Strategy Paper (RoS, 2005b) and progress towards the Millennium Development Goals in Serbia (RoS, 2006) recognize that Serbia still lacks a comprehensive policy and effective strategy to eliminate the negative effects of the transition on the possibilities of the majority to enjoy economic and social rights. The new Constitution[1] guarantees a wide scope of the economic, social and cultural rights enshrined in the International Covenant on Economic, Social and Cultural Rights (ICESCR), and stipulates that the attained level of human rights may not be lowered (Article 20.2). It introduces anti-discrimination and gender equality provisions, establishing a policy of equal opportunities as an obligation of the state (Article 15) and social measures to eliminate discrimination on any grounds (Article 21.4).

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1 Adopted by the National Assembly in 30 September 2006. The official English version is available at: <www.parlament.sr.gov.yu/content/eng/akta/ustav/ustav_1.asp>.

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ROMANIA
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Giving back meaning to the right to social security

During Romania's transition from a socialist to a market economy and preparation for EU accession, Article 22 of the Universal Declaration of Human Rights has been lost along the way. Today, the phrase "Everyone, as a member of society, has the right to social security" seems emptied of any meaning for most of the population. Although social protection represents a critical need for most of the people, it is no longer perceived as a right. It has been taken off the public agenda, and is absent from the political agenda. It is in this context that civil society is called on to act and promote debate over social security as a right, and therefore an essential priority around which public policies must be created at the service of a healthy society. ■

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Nevertheless, despite the evident negative effects of the transition on the population, the government's efforts are still much more focused on attracting foreign investment, building the market economy and protecting the interests of the newly established capitalist class, than on protecting, fulfilling and safeguarding the attained level of economic and social rights as prescribed in the ICESCR and the new Constitution. ■

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The government has also put into operation and strengthened new instruments in line with the recommendations of the 2005 Paris Declaration of the Organization for Economic Cooperation and Development (OECD). The initiatives to convert debt into development projects and direct support for national budgets in countries that receive aid should be intensified and extended to more countries, and greater social control and participation in how these budgets are oriented and executed should be promoted. These kinds of measures can make a direct contribution to much-needed investment in basic social services, which is something governments in developing countries must do if they are to progress towards the Millennium Development Goals set in 2000.

It is less than a year since important legislation for Spanish development assistance was concluded, and action must be taken to promote some basic measures so that the trends that were initiated should not be merely transitory. It has become urgently necessary to impose regulations (which people have been demanding for some time) to sever the links between economic and commercial interests and Spanish foreign assistance, and to thoroughly overhaul the system through which Spanish cooperation is managed (the Spanish International Cooperation Agency). Almost the only step taken in this reform so far has been to announce it, and there will have to be a commitment from various ministerial departments to inaugurate structures for political and strategic guidance that is well prepared and coherently coordinated, so as to achieve solid cooperation. The challenge is to consolidate a new dimension of cooperation and executive action on the political stage. In this reform Spain is seeking to permanently consolidate what have been isolated innovations up to now. ■

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