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The Economic and Social Impact of COVID-19

SOCIAL PROTECTION RESPONSES



“You and me” by Tanja Burzanovic (Montenegro)

The RER No. 17 is a collection of notes on the Economic and Social Impact of COVID-19 that will be published in three parts. The first part was launched on April 29 and focused on the macroeconomic impact of COVID-19. This second part shows how the macroeconomic impact affects the people in the region. It discusses the social impact of COVID-19 in the Western Balkans in six separate RER notes on poverty and welfare, labor, health, education, air pollution, and social protection. The third part, to be launched in early June, will focus on specific economic policy response areas—fiscal, external, and financial sector—and the crisis impact on the private sector as reported by firms.

Options for social protection responses to the COVID-19 crisis in the Western Balkans¹

The COVID-19 pandemic is affecting labor markets and people's employment opportunities across the Western Balkans, and countries are stepping up their support to affected households.

This note describes short- and medium-term options for economic support to households during the pandemic and the subsequent economic recovery period, and reviews measures that Western Balkan countries have announced or adopted.

- In the short term all countries have expanded support to poor households by either increasing benefits or the number of beneficiaries of poverty-targeted programs, or implementing universal cash transfer programs. Countries are also boosting their support to the unemployed, and programs helping firms to retain workers (i.e. wage subsidies).
- In the medium-term it will be important to continue supporting poverty-targeted programs and provide support to the unemployed. Active Labor Market Programs should also be expanded as labor demand will shift across sectors and many workers will need retraining and support to find new employment.
- There are clear financing tradeoffs between programs and across time, and spending will need to be prioritized. It will be important to improve the targeting while guaranteeing the long-term funding of social protection, and limit the duration of wage subsidy programs, which are expensive.
- In the medium-term benefit levels of unemployment insurance, social assistance and pensions may also need to be revised, in particular the additional temporary payments associated with the crisis response. At the same time Employment and Active Labor Market Programs that have shown to be effective should be expanded, while ineffective ones should be closed.
- The medium-term recovery phase also presents an opportunity to strengthen social protection systems to make them more resilient and improve their ability to respond cost-effectively to future crises.

A simple emergency support framework

Options for the social protection response to the COVID-19 crisis can be classified into emergency responses to the pandemic, and longer-term responses to support households to cope with a very likely longer-term economic crisis.

Figure 1 summarizes the response options.

In the short term, there is a need to avoid unnecessary layoffs generated by the economic impacts of the pandemic. Firms are affected by disrupted supply chains, operating restrictions (closure or limited hours), and lower demand, and both wage workers and self-employed may lose their job or activity. Given the transitory nature of the COVID-19 shock, retaining workers will facilitate firms' ability to recover

¹ This note has been prepared by Alicia Marguerie, Karla McEvoy, Gonzalo Reyes, and Jamele Rigolini. The note benefited from comments from Stefanie Brodmann, Sanja Madzarevic, Cem Mete and Fadia Saadah, Marc Schiffbauer, Edith Kikoni, Enrique Blanco Armas, Jasmin Chakeri, and Gallina Vincelette.

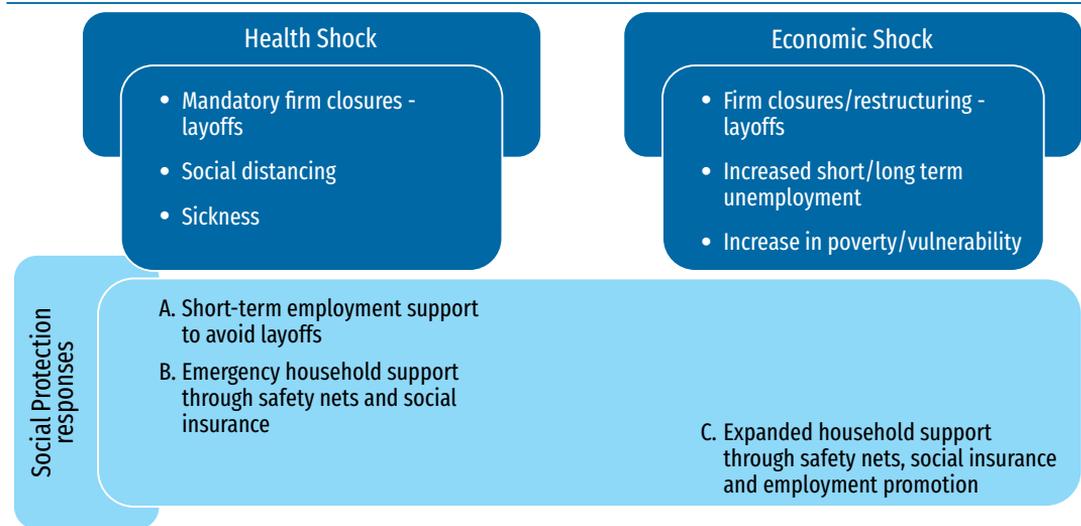
from the subsequent economic crisis, as proven in the former 2008 economic crisis.²

However, lay-offs will be inevitable—especially in critical sectors hit by the shock such as tourism, trade or transport. On top of lay-offs, one can also expect downward adjustment to wages and reduced working hours. There is a need therefore to provide emergency household support to both formal and informal households affected by the shock through expanded social assistance and social insurance measures.³ These measures may differ from pre-crisis support measures given the massive number of people affected and the need to rapidly enroll and support households.

Restrictions to economic activity to respond to the pandemic—at least in their most dramatic form—will need to be time bound given their substantial fiscal costs. But even after they have been relaxed, the

economic downturn may persist for some time. Labor market characteristics specific to the Western Balkans may also affect some households specifically hard. For instance, international travel bans may affect seasonal and temporary migrants who were finding job opportunities in countries whose borders are now closed. Remittances—an important source of income for many households in the Western Balkans—may also decrease. Until the economy will have recovered, there will be a need to support households who have fallen into poverty and near-poverty, as well as the unemployed, through expanded safety nets and social insurance, and help them to find new jobs through employment promotion measures. Fiscal implications will, however, be substantial and governments will need to find a balance between measures to support growth and investments and household support within a sustainable fiscal stance.

Figure 1. A simple emergency response framework



2 See also the companion RER note: “Western Balkans Labor Markets under the COVID-19 Shock” for a detailed discussion on the potential employment and wage impact.
 3 See also the companion RER note: “COVID-19’s Impacts on Poverty and Household Welfare in the Western Balkans” for a detailed discussion on the potential crisis impact on poverty and the income distribution.

Throughout all phases, support will need to be tailored to people's profiles. The support that can be provided to formal sector workers, for instance, may be different from the support that can be provided to informal workers, or the near-poor. For support to be effective, each group may require dedicated policy responses, and given the massive scale of the challenge some prioritization may become necessary.

Short term responses to the COVID-19 crisis

Countries in the Western Balkans have adopted a wide range of social protection policy responses intended to support formal sector workers, the unemployed, the poor and the elderly, which we review below. Some of these measures (such as wage subsidies) may be a valid policy tool in the short term, but remain quite expensive and may be less effective as a medium term response. It will therefore be important to change and adapt the policy mix across response phases.

Short term formal-sector firm support to avoid layoffs

In the short term, actions can be taken to retain workers in formal sector firms as a response to a temporary supply shock. Keeping workers employed limits the number of people unemployed, the number of households requiring further social assistance and, even more important, maintains the working relationship between firms and the workforce that is key to prepare the relaunch of production after the crisis. Several instruments exist, based on the same underlying idea: reducing labor costs in times of economic

slow-down to allow firms to keep the current workforce employed.

Employment or wage subsidies are (direct) transfers to employers designed to fully or partially cover the wages of the workforce.

Workers remain employed at a lower cost for the firms, despite reduced or zero hours worked. Eligibility for wage subsidies can be conditioned on firms retaining a certain percentage of their workforce. Wage subsidies have proven effective at preventing employment destruction during former large-scale crises. However, they need to be large enough to incentivize workers' retention and can end up being quite costly for the government. In major OECD economies wage subsidies for furloughed workers have been set as high as 90% in Denmark and 80% in the UK. Such levels are difficult to finance in most upper-middle-income and lower-middle-income countries. In North Macedonia, for instance, it has been estimated that an across-the-board wage subsidy paying 250,000 employees the minimum wage may cost more than €60 M per month. On the firms' side, having to cover the remaining part of worker salaries—if required by the crisis response measure or the country's labor legislation—can still be challenging when facing liquidity constraints, and eventually be ineffective to prevent dismissals. A potential change in the legal framework can further help firms by allowing them to pay part of the uncovered salary only up to a certain limit (which means lowering wages temporarily).

There are a few options to improve the cost-effectiveness of wage subsidies. One option is to (partially) compensate workers for reduced hours while firms keep paying (partly or fully) the remaining effective work time. Known as “temporary short-time work schemes”, this

option is followed in Germany, France and Italy, among others, but requires a system allowing to target only workers who have reduced work hours or have been furloughed. Another option is to target specific firms in terms of sectors (tourism, hospitality) or size: micro, small and medium firms are more likely to require support given the liquidity constraints they face.

Timely announcement and implementation of wage subsidies are key to avoid massive layoffs, as the liquidity pressure on firms is likely to generate dismissals very early in the crisis. It is also important to keep wage subsidies limited in time: they are only effective as a temporary measure to help firms rebound after the shock, and are by no means effective long-term substitutes of unemployment insurance and social assistance, which are much more cost-effective given their targeted nature. Finally, they should be thought of as complementary to other measures supporting firms' liquidity such as subsidized loans or capital grants, conditional on maintaining workers.

Kosovo, Montenegro, North Macedonia and Serbia have announced wage subsidies to support employment. In Serbia, the government announced that it will cover 3 months the wages for micro, small and medium enterprises. In large enterprises, 50 percent of the minimum wage will be paid to all employees whose contract has ended due to the crisis. In Kosovo, monthly wages will be covered for April and May by an amount equivalent to the minimum wage, a measure amounting to €41M. In North Macedonia, wage subsidies (paying minimum wage, again) have been announced for two months for 9,000 craftsmen and around 250,000 employees of private sector firms registering at least a 30% decline in

revenues due to the crisis. In Montenegro, two-month wage subsidies of up to 100 percent of the minimum wage have been announced for all firms in affected sectors, as well as six-month wage subsidies for newly reported employment in all sectors to encourage labor formalization.

Reducing other payroll-associated costs (usually social security or pension contributions) is another way to subsidize wages. Those are paid by the employer on top of the net wage, and deferred payments of those taxes or waivers can reduce temporarily labor costs. These measures can be conditioned on firms retaining all or a certain percentage of their workforce for some specified period. Implementation is likely to be faster as it relies on an existing system and registry. However, it can disrupt the functioning of other agencies related to pensions and social security. Deferral is preferable to exemption or reduction, from a budget perspective. Otherwise, the government should allocate from the general budget additional resources to cover foregone contributions to maintain the long-term sustainability of social insurance and pension funds. Similar to direct wage subsidies, a small decrease in total labor costs might not be enough to keep workers, but this measure can be complementary to direct wage subsidies, or to other measures helping firms to face liquidity constraints.

Bosnia and Herzegovina, Kosovo and Montenegro are moving forward with deferral or waivers of other payroll-associated costs. Kosovo announced the coverage of pension contributions for April and May, amounting to €8M. In Montenegro, firms can defer the payment of personal income tax and social security contributions, in the most affected sectors firms are fully exempted for 2 months.

In Bosnia and Herzegovina, both entities are subsidizing or covering contributions, albeit in different forms (see the Appendix).

Social insurance measures to respond to the crisis

The most common social insurance measures that have been adopted so far cover unemployment insurance and pensions.

Unemployment insurance. All Western Balkan countries, except Kosovo, have an unemployment insurance (UI) scheme in place. The COVID-19 crisis is expected to significantly increase unemployment in all countries and having these systems in place presents a great response advantage. However, the crisis will require some design changes. Systems may need to provide additional temporary benefits or relax some qualifying conditions in order to respond to the sudden increase in unemployment. Governments also need to reinforce the administrative capacity of unemployment insurance schemes and public employment services to respond to the surge in demand for their services, facilitating registration of unemployment status and processing of payments. Possibly, waiting periods will need to be lifted and procedures streamlined to reduce waiting times.

Based on the existing regulations, a range of measures would be available to Western Balkan countries. Among others, countries could reduce the period of contributions required to be eligible for benefits. Countries could also adapt benefit levels in the short term, especially in systems that currently provide a relatively low flat benefit (Montenegro, Albania and the Federation Bosnia and Herzegovina), or

consider a lump-sum benefit paid for one time to complement UI benefits. Finally, countries may also have to extend the duration of benefits possibly to at least 5-6 months, including for beneficiaries who may not have contributed the required number of months for benefitting from the full benefit package.

Some of these measures are being adopted or have been announced. For instance, Albania will provide double unemployment benefits, and Montenegro will provide a one-time payment of €50 to complement benefits to all unemployed. In Serbia the government will allow applicants to submit their unemployment benefit requests to the National Employment Service via email or by post. All countries have also allocated additional resources to cover the expected increase in unemployment benefit recipients.

In the medium to long-term, especially if the recovery process takes time, it will also be important to look at the fiscal implications of financing a long-term spike in unemployment benefits, and gauge them against other measures aimed at supporting the recovery process. The likely increase in unemployment benefits has much larger fiscal implications than, say, social assistance. Preliminary calculations suggest, for instance, that if the unemployment rate would double in North Macedonia, and the benefits would be extended by two months, the additional cost of the programs would be more than €70 M on an annual basis. Depending on the length of the recovery process, it may be therefore necessary to explore changes in program design to ensure that Governments will be able to honor unemployment benefits as they are currently designed.

Pensions. Although the elderly is the most at-risk group from a health point of view, they should be protected from the economic downturn if they count on a pension payment. However, pension schemes should be adapted to the needs of social distancing and quarantine regulations. Beneficiaries may also need additional support to remain at home, limit their trips outside and cover any additional health related costs that may arise. To avoid unnecessary trips and foster social distancing, governments can lump payments into larger, less frequent transfers, especially when payments are collected in person. Verification requirements that are done in person can also be postponed. And an additional payment or one-time lump sum payment can be considered to compensate for additional costs, especially for low-pension beneficiaries. Given the massive tradeoffs in spending many countries are facing, it would be important to gauge the need for pension increases against other social assistance and social insurance needs and ensure through proper communication campaigns that any Covid-related pension increase will be limited in time.

Several Western Balkan countries have announced measures for pensioners. In Serbia, for instance, all pensioners will receive one-off support in the amount of 4000 dinars (around €35) and pensioners can give special authorization to someone to collect payments on their behalf. In Kosovo all verification requirements have been suspended, and pensioners with a pension of less than €100 will receive a temporary €30 top up.

Social assistance responses for the poor and near-poor

Social assistance or social safety nets have the greatest potential to support poor, near-poor and informal households experiencing income loss because of the economic effects of COVID-19. Such programs provide direct support either in the form of cash or in-kind goods and services that smooth consumption, compensate for higher prices, and help prevent further falls into poverty. Such programs have been used to respond to economic crises, natural disasters, and epidemics like the 2008 Food, Finance and Fuel crisis and the 2014–2015 Ebola outbreak. Potential options for using social assistance to address the immediate and longer-term impacts of COVID-19 include:

Streamlining of recertification procedures.

Most social programs require households to verify eligibility and renew their registration on a regular basis. Some programs also have a time limit for eligibility. The pandemic complicates the process of recertification, which also becomes less relevant given that fewer households are likely to have become ineligible. Time limits should also be temporarily relaxed given the low likelihood that beneficiaries would be able to graduate or find employment. Several Western Balkan countries have streamlined recertification procedures. In North Macedonia, for instance, the 3-months rule for income assessment has been relaxed to take into account households' sudden drop in income; and in Serbia the government extended social assistance entitlements on the basis of previously issued decisions, for a maximum of three months.

Streamlining admission procedures for social assistance. The crisis will lead many near-poor households to fall into poverty

and make them eligible for social assistance. Admission procedures should be streamlined to ensure proper and timely admission of these beneficiaries into the social assistance scheme, and communication campaigns could be set up to make households aware to encourage households to check eligibility and apply—a strategy that is currently being adopted in Bosnia and Herzegovina.

Supplementing benefits to existing beneficiaries on a temporary basis. There is also a rationale to supplement benefits to existing social assistance beneficiaries to tackle the economic and health challenges they are facing, such as increased medical expenses and restrictions on any type of economic activity. Most Western Balkan countries are planning to expand such benefits. Among others, in Albania recipients of *Ndihma Ekonomike* (the flagship cash transfer program) will receive double the amount of benefits on a temporary basis; Kosovo plans an additional payment of €30 per month to all beneficiaries of social assistance and pension schemes who receive a monthly payment lower than €100; and in Montenegro nearly 11,900 pensioners receiving the lowest pension and 8,500 beneficiaries of the family allowance will receive a one-off payment of €50. Some vulnerable groups, such as the elderly, may also benefit from in-kind distribution of critical goods: Bosnia and Herzegovina, for instance, announced that it will deliver basic care packages (consisting of personal and household hygiene products) to the elderly and the vulnerable who need permanent care in specialized institutions. While these additional payments can greatly support the increased needs of vulnerable households, it will also be important to pair them with appropriate communication campaigns that stress the temporary nature of these benefits.

Enrolling near-poor beneficiaries on a temporary basis. Social programs may also want to relax eligibility rules to enroll, on a temporary basis, near-poor households that would not qualify for benefits under normal circumstances. This is because eligibility criteria, such as proxy-means tests, are not necessarily able to capture sudden drops in income (especially for informal workers), and because many near-poor households are almost as badly affected by the crisis as poor ones. Expansion of social assistance to near-poor households on a temporary basis is particularly desirable in countries with low coverage of social insurance systems, such as countries with large informal sectors or low employment levels. Many Western Balkan countries are considering such expansion on a temporary basis. In Albania, for instance, self-employed families will receive a special benefit equivalent to a state-set monthly salary; and Kosovo plans to pay €130 to citizens who lose their jobs due to the public health emergency situation, for April, May and June. An important issue to consider is to communicate appropriately their temporary nature. In contrast with conventional social assistance, beneficiaries should not expect these benefits to continue indefinitely.

Some countries in the region have also opted for a one-off universal transfer to every adult (i.e. Serbia, Montenegro). While there are benefits in a universal approach (for instance, the transfer would reach many vulnerable informal workers who may not be eligible for social assistance), it is important that such approaches do not undermine the country's ability to properly finance poverty-targeted safety nets in the medium term, especially given the significant increases in poverty rates expected during the crisis and subsequent recovery.

What about the informal sector?

Supporting informal sector workers in times of crises is a major challenge since, by definition, informal firms and workers are not registered with the Tax and Social Insurance authorities. Yet, it is important to support them both from an equity perspective (the poor work to a large extent in the informal sector), and from an economic recovery perspective (informal firms, even if they do not pay all taxes, still contribute to economic growth, are part of the value chains and provide employment to people who may need support from the State otherwise).

There is no silver bullet to support the informal sector, and some informal firms and workers will inevitably fail to receive support. But there are ways to provide support to important informal sector populations. One can, for instance, expand social assistance program to near poor households who do not receive a formal income or other forms of public support. These households are likely to be significantly affected by the crisis and supporting them is also important from a public health perspective—if they do not receive support, they are likely to keep working, reducing the effectiveness of social distancing measures. A few Western Balkan countries, such as Albania and Kosovo, have announced similar measures. And while fiscally expensive, universal, one-off transfers as announced in Montenegro and Serbia guarantee the coverage of the informal sector.

A second channel is support to informal firms. While many of them are not formally registered, most informal firms do have limited

contacts with the formal sector through formal sector suppliers and microcredit institutions, for instance. Hence, even if incomplete, it may be possible to compile lists of informal sector firms to which some form of support could be provided.

Medium-term options: Balancing household support with recovery measures

Most short-term social protection options for household support remain valid in the medium term. Nevertheless, in the medium-term it will be challenging for some countries to balance households' support with stimulus measures as both interventions will require substantial investments. The economic consequences of the health pandemic will last for a substantial amount of time—hence there is a need to prioritize interventions across programs, but also across time. While it may be tempting to frontload the heavy fiscal artillery at the beginning of the pandemic, it is important to keep some fiscal space for sustaining a lengthy economic recovery. In social protection, priority should be given to maintain the ability to finance an expanded poverty-targeted safety net that is the last bastion to prevent poor households falling into extreme destitution. Program design and legislation concerning social insurance may also be modified to maintain the ability to finance significant medium-term increases in unemployment claims.⁴ In parallel, once employment restrictions are lifted, employment programs aimed at supporting re-entry into the labor market should also be improved and expanded.

⁴ See the companion RER note: “Western Balkans Outlook: Hard Times Require Good Economics” for a detailed discussion on the tradeoff between short-term crisis mitigation and medium-term policy measures.

Ensuring adequate financing while improving cost-effectiveness of social protection programs

It is important to ensure adequate medium-term financing of social protection programs, while at the same time working towards improving their cost-effectiveness. Rapid response programs that may be appropriate in the short-term (such as a universal, one-off cash transfer) may not be sustainable in the medium-term, especially when the need to finance additional recovery measures is taken into consideration. In the medium term it may become therefore important to enhance the cost-effectiveness of social protection measures by, for instance, reassessing benefit levels and improving the poverty-targeting of safety nets, and better linking social assistance beneficiaries to employment programs that support reinsertion in the labor market. Benefit levels of unemployment insurance and pensions may also need to be revised (in particular the additional temporary payments associated with the crisis response), to ensure the ability to sustainably financing the system.

Boosting employment promotion policies to support re-entry in the labor market

The crisis will not only generate massive movements in and out of employment, but by affecting sectors differently, it will also generate a reallocation of jobs and economic activity across sectors. The jobs people lost will not necessarily be the same jobs that will be available to them, and there will be a need to boost active labor market programs (ALMPs) to retrain many job seekers and help them find employment in new sectors.

Overall, Western Balkan countries spend very little in ALMPs, and programs offered by public employment services are not always tailored to the profile of the population they serve, or the needs of the economy. It will be important therefore to improve and expand ALMPs and make them relevant to the needs of the recovering sectors. Efforts to expand and adapt to current needs could start early, for instance through online counseling and trainings, which can be developed even while social distancing and transmission control measures remain in place. In Romania, for instance, the government authorized all training activities to take place if delivered online; and in Estonia, the government offers online job search counselling and intermediation. It will also be important to improve partnerships, collaborations and coordination with private sector employment service providers, which at the moment is very limited.

Initial conditions matter: an opportunity for strengthening social protection systems

The ability to respond cost-effectively to crises varies substantially across countries and depends to a large extent from their initial fiscal space, and systems' ability to rapidly adjust and expand in times of crises. Social protection instruments such as social registries, simplified and automated registration and verification procedures, up-to-date and integrated social security and payroll databases, well-developed payment systems, and employment legislation that allows for adjustments in times of emergencies not only permits delivery of better tailored social assistance in normal times, but also allows systems to expand rapidly in times of crises in a cost-effective manner. The medium-term

recovery phase presents an opportunity to strengthen social protection systems to make them more resilient and improve their ability to respond cost-effectively to future crises.

One example are wage subsidies. In many EU countries the State only pays for the actual number of workers who do not work, or for a reduction in working hours; and legislation is in place to allow firms and the State to temporarily lower salaries/payments to workers who have been furloughed. Such legislation and monitoring ability—which requires social security and payroll databases to be well-integrated and up-to-date—is lacking in many Western Balkan countries, which will need to rely on much more costly and less effective across-the-board wage subsidies.

A similar point can be made for social registries and automated registration/verification procedures. Social registries merge information from databases across several ministries to maintain up-to-date information not only about beneficiaries from social assistance programs, but also about the general population. Well-developed social registries can therefore help identifying population groups that are particularly affected by crises and accelerate their enrolment and verification procedures.

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You and me

by Tanja Burzanovic (Montenegro)

Dr. Tatjana Burzanovic has a wide experience in the fields of graphic design, graphics in architecture, interior design. She has worked as an art editor, interior designer and graphic designer at various levels. Many of her art exhibitions have taken place at different places. She has received many awards for her arts and literary works. She has published a book with a title *The Interrelation between Art Worlds*, with the support from the Embassy of India for Austria and Montenegro in Vienna. Her artistic philosophy includes displaying of interrelationship between art worlds (spatial and temporal arts). The artist thus meditates between nature and the spirits and yet stems from the absolute idea and serves the goal of realization of absolute spirit. 'Grasping the meaning through the form' is a task of the art set by a contemporary thinker to demonstrate that building forms and creating sense are two simultaneous, intertwined, and absolutely inseparable processes in Arts. Without that recognition it is not possible to take any further step in investigating the nature of art and literature. She believes that art is a way to search the truth. Art is inseparable from searching the truth.

People forge ideas, people mold dreams, and people create art. To connect local artists to a broader audience, the cover of this report and following editions will feature art from the Western Balkan countries.