



COUNTRY BRIEF



The unpredictable financial burden of social benefits in Kosovo

Jeton Mehmeti, *GAP Institute*

1. Kosovo's policy context and macro indicators

The lack of census and accurate data on the specifics of Kosovo population has been a major obstacle for researchers and policy makers dealing with the labour market situation. After the last census of 1981, Kosovo had a census of the population in early 2011. The census was badly organized and did not cover the entire population because it was boycotted by the Serb community living in the northern part of Kosovo. The census results show that there are around 1.8 million inhabitants living in Kosovo. Kosovo's population is characterized as a young population. The average age is about 26, and around 38% of population is younger than 20.¹ A young population is indeed a great asset for the new country, but a pressing challenge at the same time, since jobs are scarce and unemployment is high.

Overall, employment in Kosovo remains very low. Although the economy has been gradually recovering since its major devastation during the war, Kosovo has shown constantly high levels of unemployment, especially among women where the employment rate does not exceed 12%. Despite rapid economic growth during 2003-2008, the employment level has remained stable and low. The employment rate stands at around 29.9%², which compared to 2007 when the employment rate was 27% shows that little has been done in the last decade in creating jobs. The employment level in Kosovo is the lowest in Europe³. On one hand, the working age population is increasing while the number of people becoming employed remains very low. These figures not only show that finding a job in Kosovo is a very challenging task. They also indicate that at a macroeconomic level Kosovo is far

¹ World Bank (2017). Republic of Kosovo Systematic Country Diagnostics

² Kosovo Statistical Agency, <http://ask.rks-gov.net/media/3574/anketa-e-fuqis%C3%AB-pun%C3%ABtore-tm2-2017.pdf>

³ World Bank (2010). Unlocking growth potential: strategies, policies, actions

from EU standards. Kosovo's employment rate of 29.9% is significantly lower than the average for EU-28 countries (71.1%⁴).

Informality in Kosovo remains very high and the existence of an informal economy implies that employment may be higher than the official records. It is estimated that one-third of workers in Kosovo are engaged in informal employment. These people either work in small firms, or are un-paid family workers, or could be self-employed people in either small firms or nonprofessional occupations. According to the World Bank, about 35% of workers are in the informal sector in Kosovo, while more than half of workers in the formal sector are public sector employees, and more than 40 percent work in large firms.⁵ Informal workers are more likely to be young men with low education and living in rural areas.

High level unemployment and low labour force participation are one of the main challenges that each Kosovo government has faced so far. According to the Kosovo Statistical Office, the unemployment level is 30.6% and active labour force stands at 43%.⁶ Place of residence is another factor affecting the labour market in Kosovo. The unemployment rate among people living in rural areas is higher compared to urban areas. People living in urban areas seem to have more job opportunities.

Another problem associated with unemployment is long-term unemployment, people who have been unemployed for a period longer than one year. Around 72% of unemployed people in Kosovo have been without a job for more than 12 months. This phenomenon of long term unemployment has not changed for years in Kosovo. This implies that it is equally difficult to find a job for a person who loses a job and for a person who is looking for job. In other words, the chances of finding a job in general are slim, especially for young people.

Youth unemployment is very high, standing at 50.9%.⁷ The youth of Kosovo also face a long transition from school to work. It takes approximately ten years for young males to make the transition from school to work.⁸ Another characteristic of young workers in Kosovo is that they are usually prone to discrimination with regard to their labour rights. Although labour relations are regulated by the Labour Law, young workers often tend to work more than the allowed working hours, they lack a proper employment contract, they are not entitled to paid leave, and most of them are not registered in the pension fund.

Gender imbalance is also present among the employed in Kosovo. Although it is difficult for both genders to find a job, employment among women is particularly low, and much lower compared to men. Female participation in the labour force is 20%, hence the low level of female employment of 12.7%. compared to male employment of 46.8%.⁹ This is the lowest rate in the region and very far from the Lisbon target for female employment (60%). This large gender discrepancy is related to different factors, starting with the scarcity of jobs itself, the educational level among women, the nature of jobs available and cultural norms. However, judging from the number of jobseekers, women are equally interested in finding jobs, just like men. Out of 112,179 registered job seekers in 2015,

⁴ Eurostat (2017) http://ec.europa.eu/eurostat/statistics-explained/index.php/Employment_statistics#Employment_rates_by_sex.2C_age_and_educational_attainment_level

⁵ World Bank (2017). Republic of Kosovo Systematic Country Diagnostics

⁶ Kosovo Statistical Agency, <http://ask.rks-gov.net/media/3574/anketa-e-fuqis%C3%AB-pun%C3%ABtore-tm2-2017.pdf>

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

48,960 of them were female, which makes up almost half of the total number of jobseekers. Increasing female employment has great advantages as it may lead towards poverty reduction, since women in Kosovo make up 49% of population.

2. Social assistance, pensions and war-veteran benefits

Local governments in Kosovo do not have sufficient resources to deliver the social services under their responsibility. According to the European Commission, Kosovo municipalities do not have accurate data on the population number disaggregated into gender, age groups, ethnicity, ability or vulnerability, which has a negative impact on planning and implementation of activities. The inclusion of Roma, Egyptian and Ashkali children and families has not improved and there are no significant improvements in providing access for children with disabilities to go to public schools. With regard to the social protection, there is still a lack of clarity among municipalities in relation to the local budget available for social services which has resulted in a considerable variation in the levels of support to social service delivery.¹⁰

Social assistance programmes are also inadequate in terms of the amounts paid. Difficult macro-economic conditions create a challenge for balancing huge investment needs and social priorities, especially given a restrictive fiscal rule and conservatism. Due to this many poor people are not protected through public support. Even the social assistance programme which exists, due to the tight fiscal space, has low coverage, hence over 60% of the poor are not reached by the social assistance programme.¹¹ Besides, even those who benefit from it feel the low benefit level. As such, the programme has not resulted in improving the welfare of the population and many people are left in poverty, although the latest data on the level of poverty consumption show a decrease in poverty in 2015 compared to previous years. The level of poverty in 2015, living with 1.82 euro per day per person, was 17.6%, while extreme poverty, living with less than 1.30 euro, was 5.2%.¹² This is a decrease by half compared to 2009, when poverty was 34.5%, while extreme poverty 10.2%.¹³

Social Assistance Scheme in Kosovo is regulated by law.¹⁴ This law provides the mechanism to support people who risk poverty due to their poor access to the labour market, due to their young age, care of a family member, or the inability to work. There are three types of payments within the Social Assistance Scheme (SAS): payments for social assistance, payments for child benefits, and payments for special care of family members. To be eligible for social assistance payment, all family members should be dependent and unemployed. Up to three family members, the payment for a single member is 25 euro, and for each additional member the family receives six euro, unless, in extremely rare cases, if the family has over 15 members the additional payment is five instead of six euro.¹⁵ Hence,

¹⁰ European Commission Report on Kosovo (2016), https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_kosovo.pdf

¹¹ World Bank, Kosovo public expenditure review

¹² Kosovo Statistical Agency. Varfëria në konsum në Republikën e Kosovës 2012-2015. April 2017 <http://ask.rks-gov.net/media/3186/stat-e-varferise-2012-2015.pdf>

¹³ Kosovo Statistical Agency. Varfëria në konsum në Republikën e Kosovës 2011. Mach 2013 <http://ask.rks-gov.net/media/2736/varferia-ne-konsum-ne-republiken-e-kosoves-ne-vitin-2011.pdf>

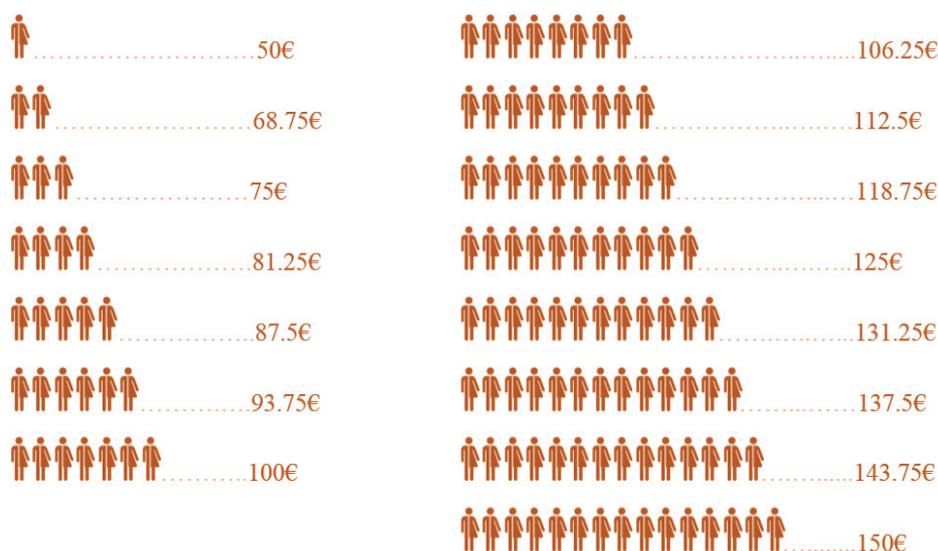
¹⁴ Official Gazette of the Republic of Kosovo, Law no. 2003/15 on the Social Assistance Scheme in Kosovo

¹⁵ GAP Institute,

http://www.institutigap.org/documents/5627_GAPAnalyze_Dallimet%20n%C3%AB%20menaxhimin%20e%20buxhetit%20familjar%20nd%C3%ABrmjet%20%20grave%20dhe%20burrave.pdf

families with more family members receive less social assistance per member. The figure below shows how this formula works.

Figure 1. Cash benefits per family member under Social Assistance Scheme in Kosovo



Source: GAP Institute, 2017

In addition to the social assistance payments as mentioned above, eligible families are also allocated an additional five euro in case they have children between 0 to 18 years old. The payment is made to enable families to spend on education and health. In addition, such families receive state subsidy for the electricity bills for their first 400 KWH per month. They are also exempted from paying for primary and secondary health services.

The number of households and individuals in social assistance has dropped significantly compared to 2003 when social assistance started functioning. In 2003 there were around 50,000 families and around 190,000 individuals benefiting from it. In the first five months of 2017, social assistance was provided to 26,255 families, with 107,777 members. This means, only 10% of households, or 6% of Kosovo's population receive social assistance. Based on 2015 poverty data, according to which 17.6% of the population lives in poverty with less than 1.82 euro per day, or expressed in absolute numbers about 317,000 people, it appears that the social assistance scheme covers only 34% of the poor population. A four-member average family in Kosovo needs a minimum of 218 euro per month for basic expenses to stay out of poverty, while social assistance only 37% of these costs (81.25 euro)

In 2016, the budget for social protection accounted for 22.05% of all budget expenditures, or 386 million euro. In 2017 this figure has passed 400 million euro, which amounts to 6.09% of the GDP. But, most social schemes in Kosovo are social schemes based on categories and not social beneficiaries. The only social poverty-based scheme is the social assistance scheme, where, even if we calculate the electricity subsidy for social cases, it is only 8.3% of the budget allocated to the social scheme, or 0.51% of GDP. Much of the budget for social schemes goes to basic pensions and contributory pensions (3.25% of GDP) and for war veterans or former political prisoners (1.93% of GDP).

The chances for increasing social benefits in the near future are slim, especially if one takes into account the challenges that war veteran benefits are posing. The law on war veterans was approved in April 2014. The law categorizes veterans in six different categories: invalid veteran, warrior veteran, inmate veteran, missing soldier, member veteran and participant veteran. Although the law foresees

the final lists of veterans for each category, it does not set a time limit for when this process should be completed. According to the Law, each veteran who is verified by the Commission and who is not working, has the right to veteran pension. The amount of the pension is set annually but cannot be lower than the minimum wage. Accordingly, in September 2015, through an executive decision¹⁶, the Government determined the amount of pensions, based on the minimum wage, according to which veterans up to the age of 35 will be compensated by 130 euro per month, while veterans over the age 35 will be compensated with 170 euro per month.

By amending and supplementing the Law on Veterans in December 2016, there was also a sub-categorization of veterans and the amount of pensions was introduced into the law. According to these changes, war veterans are divided into three sub-categories:

- First category, veteran fighter, engaged from 1991 to 5 March 1998 and was active until the end of the war.
- Second category, veteran fighter, engaged in war after 5 March 1998 and was active until the end of the war.
- Third category, veteran fighter, engaged in war after 31 March 1999 and was active until the end of the war, as well as the veteran engaged in the war since 1991, respectively after 5 March 1998, but was not active until the end of the war.

According to the new law, veterans' pension should not exceed 0.7% of GDP. However, this rule has already been violated if we look at the 2017 Budget Law where the total budget for war veteran pensions was 64 million euro. If we take into account the GDP of Kosovo for 2016, which was about 6 billion euro, the total budget for veteran pensions should not have exceeded 42 million euro. Thus, the budget for veterans has exceeded 1% of GDP. This also violates the stand-by agreement made between the Kosovo Government and the International Monetary Fund.¹⁷

According to the World Bank, war veterans benefits could prove extremely harmful for fiscal sustainability, "having negative labour market consequences...and not designed to cover the poor". Unemployed war veterans are eligible for cash benefit that is equal to the minimum wage in Kosovo, which currently stands at 130 euro for people below 35 years old and 170 euro for those over 35. Even today, the lists of war veterans is not finalized and it remains unknown what the final number of beneficiaries will be. So far about 66,300 people have applied for veteran status. Veteran certificates have been issued for about 46,230 persons so far. Upon the end of the war, according to the International Organization for Migration, the number of Kosovo Liberation Army fighters who were disarmed in September 1999 was 24,577.¹⁸ The increasing number of beneficiaries has led to an increase of the budget for this category, from 24 million euro in 2015, when the Law on war veterans was adopted to 64 million euro in 2017. Two other countries that spend large amounts of money from the state budget for war veterans pensions are Bosnia and Herzegovina and Croatia. According to the World Bank, these two countries spend up to 2% of GDP for war type pensioners, including war invalids, veterans' families, etc.¹⁹

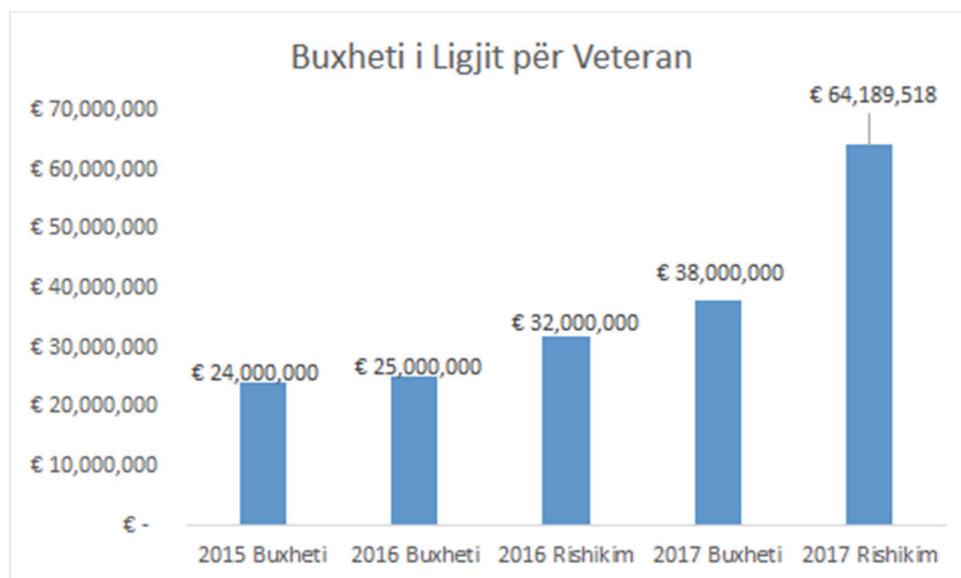
¹⁶ Prime Minister Office. Decision no.11/50 of 23 September 2015

¹⁷ IMF. Republic of Kosovo, Second and third reviews under stand-by arrangement. March 2017.

¹⁸ Anna di Lellio & Gerantina Kraja. Kush dhe si po i numëron ushtarët e UÇK-së? Sbunker.net

¹⁹ World Bank. Social safety nets in the Western Balkans: design, implementation, and performance.

Figure 2. The budget cost of the Law on War-Veterans



Source: GAP Institute, 2017

War veteran benefits is already a financial burden for the Kosovo budget, considering that the number of applicants was thought to be much lower. However, as the number of certified applicants continues to increase, the exact annual budget for this category is hard to know. The table above shows the differences between prediction and actual cost in both 2016 and 2017. According to the law, employed veterans are not entitled to benefits, however, as potential beneficiaries they could move into the informal sector in order to receive the benefits. When one takes into consideration that 70% of those benefits could also bequeathed to family members, the war veterans benefits are certainly going to be a long financial burden for many years.

In addition to other benefits foreseen by the Law on war veterans, including those linked to free access to education, health, transport, tax and customs benefits, as Kosovo citizens they are also entitled to receiving the retirement pension, whose only condition is being of age 65. The basic pension consist of 75 euro per month, while for those with proven 15 years of work experience prior to 1999, the supplemented basic pension goes up to 140 euro per month. The latter varies also on the level of education. Pension income has increase two times by 25%, both times prior to national elections of 2011 and 2014 respectively. Looking in a retrospective, one can see that the budget for pensions has drastically increased in the last decade, from 61 million euro in 2006, to 192 million euro in 2016. In addition to the basic pension, Kosovo citizens may also contribute to external pension funds. One fund is mandatory, which entails a combination of 10% of one's salary, whereby the employee contributes with 5% and the employer contributes another 5%. Once the person reaches the retirement age of 65, he or she is allowed to withdraw the collected funds on monthly basis up to the level of the minimum wage. There is also a voluntary scheme that allows Kosovo citizens to save in private institutions that are licensed in Kosovo.

Overall, category-based social schemes are expected to grow further in 2018, as new categories have emerged such as pensions for Members of Kosovo Parliament in the 1990s (300,000 euro planned for 2018), compensation for victims of sexual violence which includes cash benefit of 230 euro per month for an estimated 20,000 victims, compensation for teachers of the 1990s, etc.

3. Conclusions

Employment in Kosovo today is either in the form of hired labor, working in the public or private sector, or in the form of self-employment. Assisting/working in a family business is also a characteristic of many 'employed' people in Kosovo. However, high unemployment level shows that the government has not been successful in adopting good employment policies, both active and passive policies. The government should reflect on active policies in order to activate employment by preserving existing jobs, and at the same time encouraging job creation and self-employment in the form of individual entrepreneurship. Good passive policies are equally important in order to provide a better social living standard for the unemployed. These policies should aim to prevent unemployment or at least make the consequences of remaining jobless easier.

Unfortunately the current social protection mechanisms are inadequate. The social assistance scheme provides insufficient coverage for the people in need. With current benefits of social assistance, a four-member family covers only half of the needs to escape the extreme poverty threshold, while the pension system is meant to only cover the basic food basket. There is an urgent need for reflecting on the social protection mechanisms in Kosovo, especially after the new challenges posed by the law on war-veterans.

Considering the high unemployment rate and the low coverage and quality of social protection programmes, the following recommendations could help in changing the status quo.

First, more should be done to fully implement the Employment Sector Strategy 2015-2020 and its action plan. Considerable attention should be given to youth employment. This also requires a full operational Employment Agency and functional public employment offices in the municipal level.

Second, the central government should clarify and transfer the competences for management and delivery of social and family services to the municipalities. This will result in better social protection services.

Finally, the war veteran benefits scheme needs further analysis, both on the eligibility criteria and the pension amount. Any modification of it should go hand in hand with the social assistance scheme and the general pension system.

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Social cohesion in the Western Balkan economies is under constant risk. A weak social welfare state and the persistent and challenging economic situation create an unstable environment that could compromise and jeopardise the sustainable development of the Western Balkan societies.

A group of Western Balkan think-tank organisations and researchers working on the welfare state issues have initiated development of a Regional platform with the aim to engage the foremost researchers, political, business and other leaders of society to shape a regional social welfare state agenda, thus contributing to improving the social dimension of the European Integration in the Western Balkans.

The initiative intends to create added value through influencing existing processes which promote a sustainable reform agenda in the Western Balkan (such as economic governance and Economic Reform Programme, EU negotiation process, Employment and Social Reform Programmes, etc.). One of the outputs and tools of influence is initiating and holding of an annual event to discuss the *Future of the Welfare State in Western Balkan*.

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