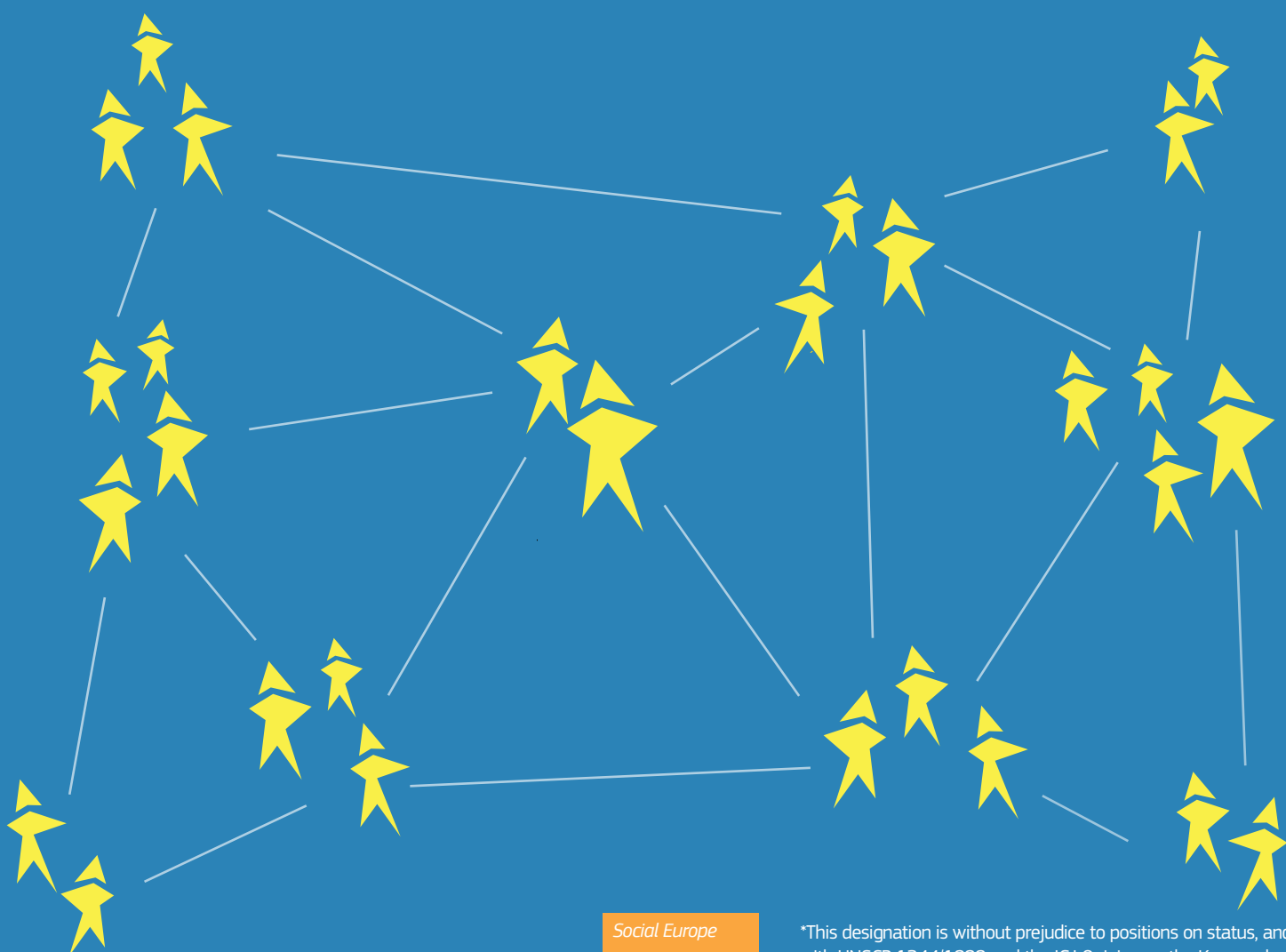




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

In-work poverty in Kosovo*

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Social Europe

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

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European Social Policy Network (ESPN)

**ESPN Thematic Report on
In-work poverty**

Kosovo

2019

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The European Social Policy Network (ESPN) was established in July 2014 on the initiative of the European Commission to provide high-quality and timely independent information, advice, analysis and expertise on social policy issues in the European Union and neighbouring countries.

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Summary

Kosovo has a high in-work poverty (IWP)¹ rate. The overall IWP rate was 15.2% in 2017 based on the national Household Budget Survey (HBS). Most in-work poverty in Kosovo is found among self-employed individuals, young and middle-aged employees, and low-educated workers. In terms of gender, more in-work poverty is found among male employees than female employees. However, the overall in-work poverty rate declined by 6.8 percentage points during the reference period, 2012 to 2017. The highest decline in in-work poverty occurred among young employees, low-educated employees, and women. The high in-work poverty results from a number of factors, namely a low overall employment rate (29.8% in 2017), a particularly low employment rate among women (12.5%), and a workforce dominated by individuals with secondary and lower education (52.6%). In addition, the statutory minimum wage is often not respected (implemented) by the private sector, while the absence of quality active labour market policies, public health insurance and unemployment protection institutions does not help the conditions of the poorest workers either. The registered decline in the poverty rate during the reference period results from a partial growth in self-employment and overall wages, the fact that most employed women work in the public sector (which pays better wages than the private sector) and increased average family disposable income, including through overall public spending on cash social transfers.

Despite high IWP rates, in-work poverty is largely absent in Kosovo's policy discourse and list of priorities. The country has only a limited set of policies countering in-work poverty; even those that exist were not originally conceived to target in-work poverty. The minimum wage was set in 2011 and has not been adjusted by the cost of living since, bringing into question the government's seriousness about tackling income inequality and assisting low-income earners. While the income tax policy contains some progressive elements (in that there is a comparatively lower marginal tax rate for low-income earners), there are no other tax incentives or allowances aimed at supporting low-income earners. Public-sector salaries have been raised as an instrument of electoral politics, which may have acted, in part, to reduce income poverty, at least in the public sector. Activation policies are becoming a more important component of labour market policies, but targeting is not geared towards those furthest from labour market integration. In general, Kosovo is in its infancy when it comes to in-work policy measures.

Several upcoming policy reforms, not directly designed to target IWP, could improve the situation of people who are at risk of in-work poverty. The new law on social housing, if adopted in the current format, will address better the needs of low- and middle-income families, since 50% of social housing in Kosovo is supposed to be distributed among these two categories. The introduction of a long-awaited health insurance fund (anticipated to start in late 2019) will save many low- and middle-income families from catastrophic health expenditure, while the planned new law on early childhood education and development will increase labour market opportunities for women, by increasing enrolment and improving inclusiveness and quality of education and care.

Reliance on the Household Budget Survey creates limitations in understanding several dimensions of IWP and the material deprivation of employees. Selected IWP indicators for Kosovo were calculated using the Household Budget Survey (HBS)

¹ In this report, IWP is measured on the basis of the Household Budget Survey (HBS) rather than the European Union Statistics on Income and Living Conditions (EU-SILC). A person is considered **at risk of in-work poverty** if he/she is in employment and lives in a household that is at risk of poverty according to HBS data. A person is **in employment** when he/she worked for more than half of the income reference year. Employed individuals can be waged employees or self-employed. A household is **at risk of poverty (or "income poor")** if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered is those aged 18-64.

because the country only began to conduct a European Union Statistics on Income and Living Conditions (EU-SILC) survey in 2018. Because different questions are used by the HBS and EU-SILC, several IWP indicators calculated for other ESPN countries could not be calculated for Kosovo. Unlike EU-SILC, HBS also does not survey the same households over a period of several years. However, ESPN indicators are based on the best existing data and do correspond to the World Bank's findings for 2015.

1 Analysis of the country's population at risk of in-work poverty

Kosovo's in-work poverty rate is high, but it is declining, and the employment rate has a strong impact on this development. Its IWP rate was high both at the beginning (22% in 2012) and at the end (15.2% in 2017) of the reference period. The high IWP rate is caused, among other significant factors, by the low overall employment rate. Kosovo's employment rate for persons aged between 15 and 64 years was 25.5% in 2012 and 29.8% in 2017 (KAS, 2018: 98). An international survey conducted by Millennium Challenge Corporation (MCC) suggests a higher employment rate (41.1% in 2017), but it included persons aged between 15 and 74 years (Siddiqui et al., 2017). Clearly, income from work is the main source of poverty reduction (see also Cojocar, 2017: 48). Indeed, Kosovo's in-work poverty rate declined by 6.8 percentage points (pp) after 2012, and this corresponded to an increase in the employment rate of 4.3 pp during the same period. However, with the low employment rate and an average family size of 5.3 members, the likelihood that employees find themselves in poverty is high, because a large share of families with income from work have only one working member. This is why, for the foreseeable future, the modest employment rate will continue to maintain high levels of IWP.

Table 1: In-work poverty in Kosovo for persons aged 18-64, %, 2012-2017 (HBS)

Kosovo		Reference period						Change 2017 vs. 2012	
		2012	2013	2014	2015	2016	2017	Absolute	Intensity
IWP rate		22.0	19.1	14.5	17.8	19.5	15.2	-6.8	-30.9%
IWP rate by status	Employees	17.7	14.4	12.5	14.9	15.4	12.3	-5.4	-30.5%
	Self-employed	29.0	28.4	19.3	23.3	28.1	20.8	-8.2	-28.3%
IWP rate by sex	Males	22.0	19.2	14.5	17.9	19.6	15.3	-6.7	-30.4%
	Females	21.7	14.9	19.3	15.4	6.3	11.0	-10.7	-49.3%
IWP rate by age group	18-24 years	100.0	17.9	45.2	41.8	:	58.5	-41.5	-41.5%
	25-54 years	24.2	21.5	15.0	19.6	21.3	19.0	-5.2	-20.8%
	55-64 years	14.8	12.3	12.2	13.1	15.2	7	-7.8	-52.7%
IWP rate by education ²	Level 1	41.6	33.5	30.9	34.0	33.9	24.6	-17.0	-40.8%
	Level 2	18.6	18.3	11.8	17.3	19.0	16.6	-1.8	-10.7%
	Level 3	3.0	2.7	1.7	2.6	:	:	-0.4	-13.3%

Source: Own calculations; source base: Household Budget Surveys (KAS, 2012-2017).

In-Work poverty indicators for Kosovo are only partial, since they are not based on the EU-SILC survey. The Kosovo Agency of Statistics (KAS) conducted an EU-SILC survey for the first time in 2018; even this survey, it said, will not be available for use until late 2019. In the absence of the EU-SILC survey data, selected indicators are

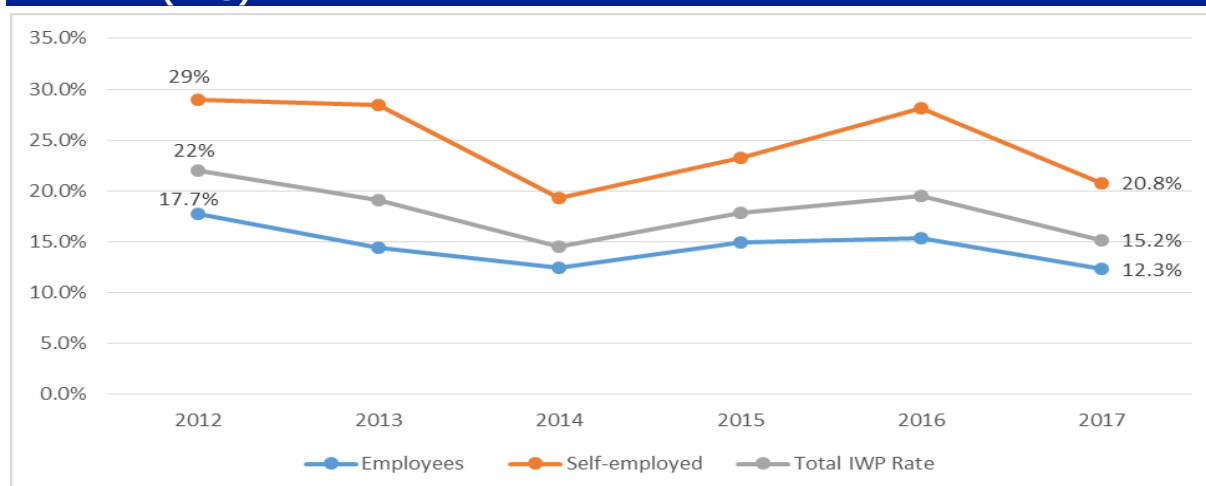
² According to the HBS survey, Level 1 includes primary and lower education, Level 2 includes secondary and non-tertiary education, Level 3 includes tertiary education. No further breakdown is possible to align the indicators with EU-SILC exactly.

calculated on the basis of the HBS conducted by KAS during the reference period (2012-2017). The indicators provided in Table 1 are calculated by following this approach: in-work poverty is defined as the percentage of the employed aged 18-64 years who live in households at risk of poverty (i.e. below 60% of the median equivalised disposable income); IWP is then further broken down according to several employment characteristics. However, since the HBS questionnaire is significantly different from the EU-SILC survey, the majority of the IWP indicators produced by the Statistical Office of the European Commission (Eurostat) for other countries cannot be calculated for Kosovo in this period (for further information on the state of data, see section 4). In an earlier study on jobs in Kosovo, when analysing the relation between jobs and poverty, the World Bank used the HBS as well, and faced similar questionnaire limitations (Cojocar, 2017: 48).

If poverty is measured using the official national poverty line, the incidence of employees in poverty would be smaller. Kosovo's official poverty indicators are regularly measured by KAS and the World Bank, based on an absolute line of consumption expenditure. Usually, this poverty line is significantly lower than the at-risk-of-poverty rate based on income, as calculated in most EU countries. Measured through the national approach, according to the World Bank the poverty rate among working adults was 11% in 2015 (Cojocar, 2017: 49); that is 6.8 pp lower than the IWP for the same year as shown in Table 1. However, despite differences in absolute final numbers, our measurements and those of the World Bank provide a similar tendency and similar poverty characteristics when it comes to the differences between the genders, the employed and self-employed and education status (see Cojocar, 2017).

The overall IWP rate is also high because the employment of women is low. IWP in Kosovo is in general higher among employed men than employed women. This is probably due to three main reasons: (1) Employed women are more likely to be found in households where there are more employed persons, and this reduces the incidence of poverty; (2) The largest share of women is employed in the public sector, which pays better than the private sector; and (3) Women participate less than men in self-employment, as shown also by the Kosovo Pensions Savings Trust (KPST) administrative data (KPST, 2018). However, the employment rate of women is very low: it was 10.7% in 2012 and 12.7% in 2017 (KAS, 2018). Therefore, it seems that if there is to be an improvement in the overall in-work poverty indices, it is important to have a rise in the employment of women as well.

IWP is greater among the self-employed than among employees, although the gap is narrowing – indicating that self-employment conditions are improving. As is shown in Figure 1, the in-work poverty rate of the self-employed has been consistently and significantly higher than that of employees (by up to 11.3 pp). This is due to lower income among the self-employed compared to employees. This income trend is again supported by relevant administrative data: the self-employed save less in mandatory individual pension savings (Pillar II) than the average for other workers (KPST, 2018: 77). However, the IWP gap between the two groups has narrowed by 3.1 pp, which means that the relative conditions of the self-employed are improving; the same trend is similarly backed by KPST administrative data.

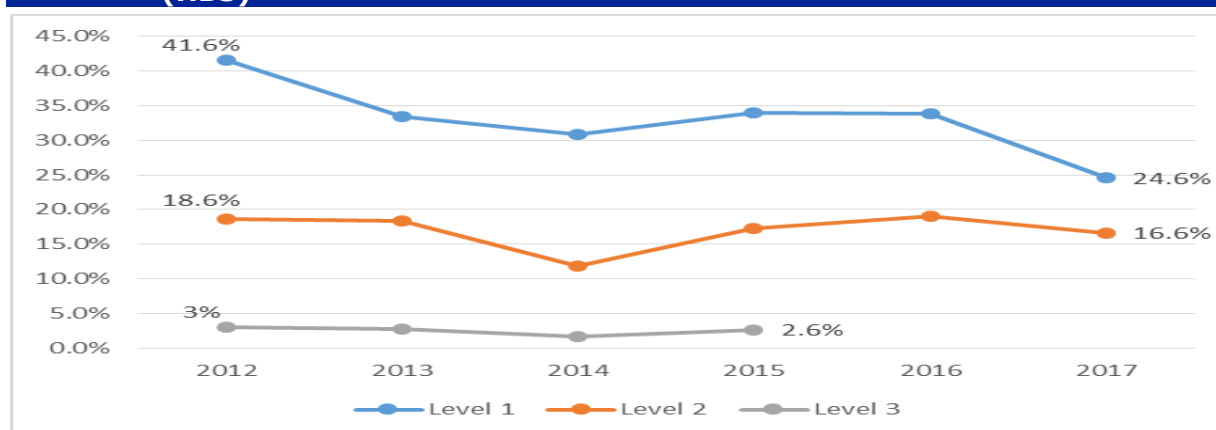
Figure 1: Evolution of IWP rates in Kosovo, by employment status, 2012 -2017 (HBS)

Source: Kosovo Household Budget Survey (KAS, 2012-2017).

According to the official data, the share of self-employment in total employment in Kosovo was 15.4% in 2017 (KAS, 2017: 17). In sectorial terms, most self-employment is found in the crafting, trade and agriculture sectors. The share of the self-employed in the agriculture sector was 10.8% in 2017 (KAS, 2017: 16).

There is more in-work poverty among young and middle-aged workers than among workers in the last decade of work. In-work poverty is declining in three age groups of employed persons, but the intensity of the decline is greatest among oldest workers. Based on HBS and KPST administrative data on pension savings, young workers (18-24 years) and workers in the last decade of work (55-64 years) have considerably lower income than the largest share of employees, aged 25-54 years. However, according to HBS data, young workers and middle-aged workers are more likely to be found in larger households where other members receive low or no income, which may explain these results. Still, the high IWP rates among young workers in particular are somewhat counter-intuitive and the results on the group fluctuate a lot, which may be connected to the survey design (see section 4).

Workers with the lowest level of education are poorest. In-work poverty is higher among workers with primary or lower education than those with secondary and tertiary education, as in other countries. This suggests that any improvement in educational conditions could result in lower IWP. Most of the employed persons in Kosovo, however, have secondary and non-tertiary education.

Figure 2: Evolution of IWP rates in Kosovo, by level of education, 2012 -2017 (HBS)

Source: Kosovo Household Budget Survey (KAS, 2012-2017).

Kosovo needs to improve work conditions in the private sector, including utilisation of public insurance programmes, such as income replacement in case of unemployment, sickness benefits, etc. Most employment growth since 2012 has come through the private sector, which pays smaller wages than the public sector. In addition, the private sector faces weaker work conditions and protection. For example, considerable employment growth during the reference period came through the private construction sector, which employs mostly young and middle-aged men with low education, and it pays low wages. Due to poor safety conditions at work, 10 construction workers lost their lives in 2017 alone, and many more were severely injured (Boletini, 2018). In-work poverty is also not helped by the absence of work-related insurance schemes. Kosovo has no mandatory public health insurance scheme in place, no unemployment protection and no policy to finance long-term absence from work due to illness. Since many construction workers end up out of work due to injuries, they have to cover medication for themselves, even though their income flow has stopped. Therefore, improvements in private-sector wages, conditions of work and public insurance schemes would help reduce the overall in-work poverty rate.

A better distribution of jobs and more activation would contribute to lower IWP. There are more job places in Kosovo than there are employed individuals. As demonstrated by the annual wealth and property statements for public officials, often the most powerful individuals hold several positions, which creates a concentration of job resources. A better distribution policy, including across genders, would help reduce the large in-work poverty rate. This could be helped by, among other things, improved active labour market policies (ALMP), which attract low spending in Kosovo (Cojocar, 2017: 53) and which have declined in importance, in particular when it comes to the activation of social assistance beneficiaries, since the changes in Kosovo's government in 2017. According to MCC's labour survey report (Siddiqui et al., 2017), labour inactivity was 50.4% in Kosovo in 2017, with 68.7% of the inactive being women (Siddiqui et al., 2017: 11). On the other hand, several crucial IWP features in Kosovo – such as those based on work intensity, type of contract and type of employment (full-time or part-time) – as well as their relation to material deprivation, will be better understood by analysing the EU-SILC survey in coming years, since such questions are not asked in the HBS survey. Given the employment circumstances in Kosovo, such indicators would be valuable for policymakers.

2 Analysis of the policies in place

2.1 Policies directly influencing IWP

2.1.1 Increasing low net wages

Given the high level of unemployment in Kosovo, which is of a structural nature, in-work poverty is neither a priority nor a prominent issue in the policy discourse. Kosovo faces supply-side challenges with an underperforming and uncompetitive economy, as exhibited by a skyrocketing trade deficit. Its flipside is a level of unemployment that is the highest in the European continent. As an economy with a low economic base, Kosovo operates at well below its potential. As such, it exhibits little industrial prowess that could provide employment opportunities for its population. The policy discourse in Kosovo is currently more dominated by a discussion of the sources of economic growth capable of generating jobs. There is little, if any, discussion about ways to reduce poverty among those already in the workforce.

There are few direct policies by the government that seek to deliberately counter in-work poverty. Such direct policies include the minimum wage, although there are questions about the adequacy of the minimum wage level to act as a cushion against income poverty. In addition, there are indications that the statutory minimum

wage is sometimes not respected by the private sector. But there is no package of potential direct policies that would enable Kosovo to tackle in-work poverty in a deliberate manner. For example, there are no policies to exempt low-income earners from social charges, and so, irrespective of income level, wage earners are required to pay social contributions. In addition, there are no formal income transfer schemes for low-income earners. Nor are there tax credits for low-income earners – not even child tax credit.

The minimum wage is not adjusted to the cost of living, and its level falls short of the in-work poverty threshold of 60% of equivalised household income. The Kosovo Labour Law stipulates the mechanism that sets and adjusts the minimum wage in Kosovo. The Economic and Social Council of Kosovo is tasked with recommending to the government the level of the minimum wage, which is supposed to be adjusted according to a number of indicators, including the cost of living. However, based on publicly available information, this adjustment was done once and has not been repeated annually, as is required by law. The minimum wage is set at €130 a month for those aged below 35, and at €170 a month for those aged over 35. But more importantly, the current level of the minimum wage does not guarantee that a person solely dependent on it can escape the in-work poverty threshold, defined as 60% of equivalised median household income. In 2012, based on an analysis of KAS data, the minimum wage for those aged over 35 was a mere 78.5% of the in-work poverty threshold; in 2017, the minimum wage was only 61.4% of the in-work poverty threshold. At best, the current minimum wage in Kosovo may only act to decrease the in-work poverty *gap*.

Public-sector salary increases over the years may have acted to reduce in-work poverty, mainly for those in the public sector. Since 2008, the Kosovo government has raised public-sector wages several times, as evidenced by KAS data. However, these increases are problematic in terms of their political motivation and their fiscal viability. The average gross salary was 20% higher in 2016 than in 2012, and the figure was nearly 30% in the public sector (compared to only 1% in the private sector). The suggestion that public-sector salary increases in and of themselves may have acted to reduce in-work poverty for those in the public sector may have some substance, according to a World Bank and KAS analysis of consumption poverty in Kosovo over the years 2012-2015 using HBS data (World Bank and KAS, 2017). It emerges from this particular analysis that the poverty headcount rate is lowest among those households that derive their income from the public sector. However, it is difficult to assess the overall *net effect* of public-sector salary increases on in-work poverty. There is a recognition that public-sector salary increases may act to crowd out employment in the private sector, thus undermining the ability of the latter to serve both as an engine of growth and as a provider of decent work.

2.1.2 Taxation policy

The direct taxation system may have a positive impact on the in-work poor, but it was not originally designed as a measure to specifically counter in-work poverty. Kosovo runs a progressive tax system in relation to personal income taxation. Namely, a 0% tax rate is applied for annual gross personal income of €0-€960; 4% for annual gross income of €960-€3,000; 8% for income of €3,000-€5,400; and 10% for income in excess of €5,400. The 0% rate for low-income workers with annual gross income of up to €960 means that this is a sub-population, whose monthly income is significantly less than the monthly minimum wage in Kosovo of €130 for those aged up to 35 and €170 for those over 35. However, it should be noted that, with a relatively small middle class, state financing is heavily dependent on *indirect taxation*, including VAT. VAT is set at 8% for basic goods, but has been hiked up to 18% for non-basic goods. VAT is deemed to be a regressive tax, which it is argued hurts low-income people disproportionately. On the other hand, there are no tax credits to help low-income earners. No other fiscal incentives exist – such as wage supplements when an individual

accepts a low-paying job. Finally, income from a secondary job is taxed at the maximum marginal tax rate of 10%.

2.1.3 In-work top-up benefits

Kosovo lacks other measures of countering in-work poverty that are typically implemented in EU Member States. There are no benefits provided to individuals who are on temporary contracts, as is the case in Belgium (Frazer and Marlier, 2010). No other minimum or basic income is available as a supplement to earned income for those who are in-work poor, as is the case in France (ibid.). Moreover, Kosovo does not administer a so-called low-wage support benefit, as in Finland, where the government provides an in-work top-up benefit to certain low-wage earners (ibid.). As mentioned earlier, Kosovo also does not implement a child allowance, as in many EU Member States and other countries. Kosovo does provide an indirect allowance for electricity bills and, in some cases, social housing; but this is not targeted towards the in-work poor, but rather focuses on social assistance beneficiaries (who are not working). In some cases, social housing is provided to individuals; this also relies on an income test and, according to the new draft law, 30% of social houses will be distributed to individuals on low income, while the vast majority will still be distributed to social assistance beneficiaries (who do not work).

2.1.4 Countering low-work intensity

Due to generally low-paid work in Kosovo, social assistance beneficiaries are implicitly incentivised to remain in social assistance schemes. There are two categories of social assistance beneficiaries: under category I, all household members must be either incapable of work or not of working age; category II covers single parents with at least one child under the age of five. It has become a formal requirement that social assistance beneficiaries maintain their status by registering as unemployed with the national public employment service. The system's design, however, ensures that if these individuals take work that yields income exceeding the threshold criterion for eligibility, they lose the right to such benefits. The emphasis on increased activation is aimed at reducing social assistance dependency. However, given the pervasive low-paid work in Kosovo, many beneficiaries may opt to remain within the social assistance schemes. Moreover, those in social assistance schemes may engage when possible in informal work, allowing them to maximise their income. On the whole, the social assistance schemes, including their inherent activation logic, do not appear to ensure that leaving a spell of unemployment necessarily results in work that pays above the in-work poverty threshold. However, this is based on deductive reasoning, rather than empirical evidence.

Kosovo spends limited public funds on ALMPs, either as a way of incentivising job creation or to tackle in-work poverty. Kosovo's national budget on ALMPs is mostly spent on the so-called "job intermediation" efforts that the public employment agency undertakes. In some cases, owing to limited capacity of the national public employment service and lack of will to undertake implementation in-house, the Kosovo government transfers financial resources to development actors (e.g. the United Nations Development Programme (UNDP) and others) to implement ALMPs. In one particular case, the Kosovo government signed an agreement with the UNDP (matching funds) to implement a wage subsidy scheme. In general, however, ALMP schemes are mostly financed and largely implemented by donor-funded projects. The Ministry of Labour and Social Welfare has yet to standardise a menu of ALMP measures that it would implement in a coherent manner, based on prior evaluation of impact. Nevertheless, most donor funding of ALMPs is concentrated on job training aimed at improving employability. Impact evaluation of some donor-funded projects (e.g. UNDP) has found that retention rates after the ALMP interventions are quite high, suggesting that some ALMPs may improve in-work poverty. However, meta-analysis of ALMP schemes worldwide finds a limited impact of ALMP interventions on job and income outcomes.

However, provision of ALMP support to jobseekers is not directly targeted at those likely to remain long-term unemployed. In recent years, the national public employment agency has developed a profiling tool to help determine the distance of a jobseeker from labour market integration. However, the tool appears to have been maintained mainly for analytical work, and does not seem to be actively used to target those most in need. In fact, most ALMP programmes in Kosovo, largely funded and implemented by donors, have identified and selected their clients (i.e. youth, women, etc.) either on the basis of predefined criteria and/or relying on the subjective judgement of caseworkers at the public employment service to determine the risk of registered jobseekers remaining unemployed. Another method applied in Kosovo is the use of demographic segmentation based on age and gender. Moreover, there is only limited impact evaluation work that can provide confidence about “what works for whom”.

2.1.5 Other measures

Kosovo labour law guarantees a flexible labour market, providing significant latitude to employers in hiring and firing decisions. Based on the labour law, employers are only obliged to provide severance payments to those who are laid off, but not to those who are fired. Consequently, job insecurity may act to limit the bargaining capacity of employees in their relations with employers. Moreover, because of the limited capacities of the Labour Inspectorate, it is widely considered that there is little enforcement of formal employee protections, especially when it comes to health and safety standards. On the other hand, the labour law envisages a generous 12-month maternity package, which includes six months of paid leave and six months of unpaid leave. But Kosovo has neither a maternity allowance nor a child benefit allowance. However, there is anecdotal evidence that private-sector companies, especially those in the informal sector, are less than exacting in their observance of such maternity leave provisions.

In light of the considerable joblessness in Kosovo, even those with a formal job are faced with significant job insecurity. Notably, Kosovo does not have a safety net for employees who are laid off, such as unemployment insurance. This generates considerable job insecurity among employees in the formal sector. However, such safety nets are better suited to a situation involving frictional or cyclical unemployment, whereas in Kosovo unemployment is structural in nature.

The limited enforcement by public authorities allows the persistence of a large informal economy. As mentioned above, the Labour Inspectorate, tasked with enforcing labour law and standards, has limited capacity to carry out its mission. Part of this institutional shortcoming is manifested in the persistence of a significant informal economy. The absence of formal contracts in the private sector is not unusual, and informal jobs are especially common in labour-intensive sectors, such as the garment industry.

Kosovo’s labour unions are considered to be weak and influenced by electoral politics, thereby undermining their ability to undertake collective bargaining agreements. Kosovo’s legacy of labour unions has been influenced by the one-party system that dominated former Yugoslavia. Such unions were considered to be under the influence of the one-party state system. In post-conflict Kosovo, the dependence of emerging labour unions on the political parties in power has persisted. Consequently, these labour unions are regarded as operating as little more than an extension of state influence to maintain social peace. In the private sector, labour unions defending workers’ rights are virtually non-existent. The persistence of this system undermines labour rights and may act to exacerbate in-work poverty.

2.2 Policies indirectly influencing IWP

2.2.1 Social housing and energy cost assistance

The Law on Financing Specific Housing Programmes (Law No. 03/L-164) requires municipalities to provide adequate and sustainable housing for families with low incomes by creating three rental schemes: (a) houses newly built by municipalities, central authorities or donors; (b) existing dwellings rented to families benefiting from a housing bonus; (c) rental apartments owned by municipalities for specific housing programmes. The legal framework establishes that the provision of social housing is a municipal-level responsibility, while the Ministry of Environment and Spatial Planning (MESPP) is the body responsible for supervising the implementation of the law. The Ministry of Labour and Social Welfare (MLSW) and the Ministry for Communities and Return (MCR) also provide some funding for social housing projects, in accordance with the law. In addition, considerable financial support is provided by the donor community in Kosovo. Municipalities are required to design a three-year strategy based on a needs assessment, capacities and demand for social housing, and subsequently request a financial contribution from the central government to implement it. According to a report by the UN Human Rights Council Special Rapporteur (UN, 2016), only 15 out of 38 municipalities had conducted the mandatory needs assessment and drafted a three-year housing programme. Of those 15 programmes, only nine had been finalised and approved by the relevant municipal assemblies (UN, 2016).

Income level is an important criterion for the selection of social housing beneficiaries. The legal framework in Kosovo establishes a points system, whereby potential beneficiaries are awarded points across a number of categories: housing status; income; structure of the family; health condition; disability. Priority is given to the families of martyrs in the former conflict; single-parent families; or families caring for orphans.

Energy cost assistance is provided only to those families that are recipients of social assistance (and not to all low-income families). Every year, the government of Kosovo allocates €4.5 million for energy cost assistance to families that receive social assistance. This does not include in-work poverty households. The maximum monthly amount allocated per household is €20. The Ministry of Labour and Social Welfare prepares the lists of beneficiaries. In 2017, 35,102 families benefited from this assistance.

2.2.2 Childcare

The free public provision of childcare is almost non-existent in Kosovo. According to a recent World Bank report (2015), a mere 3% of public childcare providers (and no private ones) offer full-day care for free. A monthly payment is the most common arrangement, at an overall average cost of €66 (€49 average for public providers and €93 for private providers). For many deprived segments of the population, their income is insufficient to cover the costs of the care services they want to use. Free childcare is only provided to families on social assistance, and only if the child is enrolled in a public kindergarten.

There is a large enrolment gap between the poorest and the wealthiest quintiles. The 2013-2014 Multiple Indicator Cluster Survey (MICS) reveals big enrolment gaps, particularly between the poorest quintile (7% attendance) and the wealthiest quintile (37.1% attendance). In terms of access to public kindergartens, Britto et al. (2011) reported an unusual separation of roles between public and private kindergartens in Kosovo, where the public (heavily subsidised) kindergartens were mainly attended by the upper quintiles of the population, while the private (more expensive) pre-school centres were mostly attended by the lowest quintile. This phenomenon fosters inequality for poorer families, particularly because children at public

kindergartens are entitled to free healthcare from medical centres, and kindergartens receive support from civil society and international partners with specialist training, the salaries of specialist staff, and contributions towards equipment and materials.

The provision of childcare is unequal between municipalities. A clear rural-urban divide is observed in terms of access to early childhood education. Most kindergartens are located in urban areas, and a shortage of places is common – only 22% of providers can accept new clients without putting them on a waiting list (World Bank, 2015). In smaller towns and rural areas there are fewer or no kindergartens. Aware of these limitations, the Ministry of Education, Science and Technology (MEST) initiated the construction of five new public kindergartens in 2018. Construction started in four municipalities: Kaçanik, Shtime, Rahovec and Prishtina, and the work is expected to be completed in 2019. In addition, seven kindergartens will be constructed using Instrument for Pre-Accession Assistance (IPA) funds; the building of one started in 2018, while the remaining six are still at the design stage, with the construction phase expected to start in 2019 (Dyla, 2018).

2.2.3 Healthcare

The healthcare system in Kosovo does not provide targeted financial risk protection for the poorest segments of the population. Kosovo has all three factors that generally give rise to catastrophic health expenditure by the population: health services requiring out-of-pocket health payments; low household capacity to pay; and lack of health insurance or risk pooling. According to a recent study (Qosaj et al., 2018), a higher age of the household head, belonging to the two poorest quintiles and having disabled or aged members of the household can all significantly increase the likelihood of being confronted with catastrophic health expenditure. The same study reveals that households in higher consumption expenditure quintiles spent more on out-of-pocket health payments; however, households in the lower quintiles spent a higher share of their consumption expenditure on healthcare.

2.2.4 Life-long learning

Adult education in Kosovo faces insufficient sustainable legal frameworks, and lacks both social dialogue and a tradition among enterprises of investing in human resource development. There is also insufficient motivation for those in employment to improve their qualifications; an inadequate network of infrastructure and staffing for adult education; and a discrepancy between adult learning and labour market needs. A review of the current Law on Adult Learning (04/L-143) and its harmonisation with other education legislation is in progress.

Some larger firms use on-the-job training to compensate for deficiencies in the education and training institutions. According to the World Bank study (Cojocar, 2017) on-the-job training was more common among firms that had problems hiring due to inadequate skills among applicants, larger firms, firms that invested in research and development, and foreign-owned firms.

The current focus of government and donor intervention is on provision of basic adult education for marginalised groups. Most adult learning interventions target the Roma, Ashkali and Egyptian (RAE) community (e.g. the “Literacy for Women and Girls” project providing education for the first level of primary education) or blind people (e.g. literacy project for the blind (Braille) in cooperation with the Kosovo Association of the Blind).

2.2.5 Long-term care

Quality urban residential care and at-home private nurses for the elderly in Kosovo are generally very expensive and cannot be afforded by the majority. The affordability of residential care or at-home private care options for the elderly

depends on their retirement pensions. Pensions are regarded as the ideal potential source of funding for formal care of the elderly; however, in many cases they are not adequate to cover the costs of care, leading families to use informal care (World Bank, 2015).

There are no data on the total number of children with disabilities in Kosovo, making analysis of the challenges they face very problematic. Because of the lack of financing for social services at municipal level, almost all day-care services for children with disabilities are provided by NGOs and are not sustainable because they are dependent on donor financing.

The need for long-term care in Kosovo has been masked by the cultural perception that the extended family will care for its own. This means that there are fewer publicly provided long-term care services in Kosovo than elsewhere in the region, except for Albania. In some ways, this gives Kosovo a distinct advantage in the modernisation of long-term care services, since most cases requiring long-term care in Kosovo are dealt with in the extended family, combined with home care services that are available in some of the main towns in Kosovo.

3 Policy debates, proposals and reforms on in-work poverty and recommendations

3.1 Reforms directly impacting in-work poverty

In-work poverty is largely absent from the policy discourse in Kosovo. Kosovo has focused its resources mainly on improving its physical infrastructure needs. But this has played little part in improving the country's economic competitiveness. Kosovo still has the highest rate of unemployment in Europe, including among youth and women. Therefore, whatever limited policy focus exists is confined to ways of creating jobs, rather than improving the quality of such jobs.

The policy framework relating to countering in-work poverty is far from EU best practice. Key general recommendations include exploring the viability for undertaking some of these reforms (in light of hard budget constraints):

- (i) Exploring the possibilities for instituting an unemployment insurance system;
- (i) Instituting a child allowance for in-work poor (i.e. providing a cash transfer to a working poor household);
- (ii) Bringing the ALMP implementation of donors and government under one single umbrella and targeting resources and measures towards those at the greatest distance from the labour market;
- (iii) Re-establishing credibility and confidence related to minimum wage policy, by ensuring full legal compliance in adjusting its level based on the cost of living;
- (iv) Addressing serious shortfalls in the capacity of key institutions, such as the Labour Inspectorate, in countering informal work and implementing a more integrated approach towards tackling the informal economy;
- (v) A serious public administration reform aimed at recruiting individuals into public service on the basis of merit and performance, thereby slashing a significant portion of the public-sector workforce hired for political loyalty. Such rationalisation of the public sector may allow the fiscal space that has been lost to be recovered, in order to target programmes that counter in-work poverty and other development priorities;
- (vi) Enriching fiscal policy incentives, especially providing various tax credit schemes aimed at supplementing the income of low-income earners and increasing work intensity.

3.2 Reforms indirectly impacting in-work poverty

A new (draft) law on social housing aims to address further the needs of low- and middle-income families. The draft law defines the “right to social housing” for families and individuals who do not own a housing unit, were left without housing as a result of the recent war or whose residence does not comply with habitability standards. The law addresses specifically the needs of low- and middle-income families by earmarking 30% of social housing for low-income families and 20% for middle-income families. The remaining 50% of the apartments will be distributed among families that are part of social assistance schemes. Although the draft law passed all the formal procedures for adoption in parliament, the Ministry of Finance returned it for reassessment due to budgetary implications.

A new law on early childhood education and development aims to increase pre-school enrolment, improve inclusiveness and enhance the quality of education and care. The new law aims to regulate the work and licensing of various pre-school entities (public, private, community-based, etc.), increase their inclusiveness (especially for disabled and ethnic minorities), define the management of pre-school institutions and address healthy eating for children in these institutions. The Concept Document has been formally approved by MEST, and the development and adoption of the new law is planned for 2019.

A law introducing mandatory health insurance (04/L-249) came into force in 2014, however its implementation has not started yet. The law envisages the establishment of a single statutory health insurance fund, financed from contributions by employers and employees (3.5% of wages each), plus general government revenues covering social assistance beneficiaries. A wide range of groups will be exempt from paying contributions: families claiming social assistance, prisoners, individuals who live in state institutions (e.g. persons with disabilities sheltered in residential institutions), pensioners, people with disabilities, repatriated people during the first year of repatriation, war veterans and invalids and their spouses and children, trafficking victims during the first year after their official registration, permanent residents of informal settlements in Kosovo who are not registered, and the victims of domestic violence. The Ministry of Health state publicly in February 2019 that it plans to move ahead with implementation of mandatory health insurance in late 2019. However, a recent Concept Document on social insurance (MLSW, 2018) suggests that the health sector should be financed from national revenues, rather than contributions, but that the finances should be managed through an autonomous fund. In both scenarios, the reform intends to split the purchaser-provider role, aiming to improve the management of health institutions and the quality of health services.

Hence, in the absence of direct IWP policies, Kosovo could benefit from reforms that indirectly target individuals and families living in IWP, including:

- (i) Developing appropriate systems of care for children and the elderly. Expanding formal care services would certainly improve labour market opportunities for women. The recent UNICEF study “Costing of Early Childhood Education” (unpublished)³ concluded that, based on conservative estimates of growth in GDP and in public revenues, pre-school education in Kosovo can achieve 90% coverage through a combination of public, private and community-based kindergartens. The study suggests the introduction of a publicly funded minimum entitlement of 10 hours of pre-school learning per week for every

³ The study was instigated in 2016 by the president of the parliament of Kosovo, supported by the Ministry of Education Science and Technology, and was conducted by UNICEF Kosovo (through FISCUS Public Finance Consultants Ltd.). It aimed to present an estimation of the potential cost of implementing a universal early childhood development education system in Kosovo, including both PPE (Pre-Primary Education (Grade 0 for children ages 5-6)) and PSE (Pre-School Education (for children aged 1-3 and 3-5)). For further details, see <https://fiscus.org.uk/kosovo-introducing-universal-early-childhood-education/>

child. Similarly, improvements in eldercare can improve the health of the elderly, and thus enable savings in the healthcare sector (World Bank, 2015).

- (ii) Improving links between adult learning and the labour market, allocating sufficient budget to adult learning and non-formal education, raising awareness among those in employment and involving the private sector in a common financing system for adult and non-formal education.
- (iii) Introducing the long-awaited health insurance fund, which, if properly designed to target lower-income quintiles and vulnerable groups, could prevent many low- and middle-income families being faced with catastrophic health expenditure and in-work poverty.
- (iv) Adopting the new law on social housing that addresses specifically the needs of low- and middle-income families by earmarking 30% of social housing for low-income families and 20% for middle-income families.

4 Assessing data and indicators

EU-SILC will help better understand IWP dimensions. In-work poverty indicators and studies would help better understand the weak employment circumstances in Kosovo – the main reason for the high levels of poverty and high levels of outmigration of the labour force towards Western Europe – and better inform future policies. One substantial reason why such studies are missing is that there were no suitable national surveys available during the reference period. Our report on IWP (and also a section on jobs and poverty in a World Bank study (Cojocar, 2017)) used the Household Budget Survey; while both reports suffer from the same survey issues (paragraph below), the World Bank’s approach, which relies on the national consumption-based poverty line, may further underestimate the extent of in-work poverty.

When alternative existing surveys are used, various issues arise. One obvious issue in the case of this report was the limited number of indicators which we could calculate using the Household Budget Survey. This happened because the HBS is primarily interested in the expenditure and income of households, and does not cover most of the relevant questions from the perspective of IWP analysis. Another issue that we faced was the great fluctuation in IWP results (unlike in other countries), especially in the category of employees aged 18-24. The HBS does not focus on labour conditions, and nor – unlike EU-SILC – does it survey the same families annually over the period of four years; rather, new household representatives are chosen each year for random interview. The national Labour Force Survey (LFS), on the other hand, cannot bridge the gap for IWP calculation purposes, since it is incompatible with the HBS and lacks household-level variables (for some similar limitation points, see also Cojocar, 2017: 48). Once the EU-SILC survey becomes available, there will be a better tool to examine the in-work poverty rate and its features.

The European Commission can help make EU-SILC more easily available to researchers. There are some obstacles also related to data access difficulties at the Kosovo Agency of Statistics resulting from the law (04/L-036) on Access to Official Statistics of the Republic of Kosovo; based on this law, KAS provides access to researchers only on its premises, which means there are usually time and infrastructure (e.g. internet access) research constraints. The European Commission could facilitate research into IWP and other fields of interest by supporting KAS and similar institutions to make EU-SILC databases publicly more easily available, such as through the Eurostat website.

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