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# **LABOUR MARKET AND UNEMPLOYMENT IN KOSOVA**

**(Draft Research Report)**

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## ABBREVIATIONS

AER – Agency for European Reconstruction  
ALMP – Active Labour Market Policies  
CASE – Centre for Social and Economic Research  
CE – Central Europe  
CEEC – Central and East European Countries  
CFA – Central Fiscal Authority  
EMU – European Monetary Union  
EO - Employment Office  
EU – European Union  
FDI – Foreign Direct Investments  
GDP – Gross Domestic Product  
ILO – International Labour Organization  
IME – Institute for Market Economics  
IMF – International Monetary Fund  
IOM – International Organization of Migration  
KEK – Kosova Electric Corporation  
KPS – Kosovo Police Service  
KTA – Kosova Trust Agency  
LFS – Labour Force Survey  
LM – Labour Market  
MEF – Ministry of Economy and Finance  
MEST – Ministry of Education, Science and Technology  
MLSP – Ministry of Labour and Social Policy  
MLSW - Ministry of Labour and Social Welfare  
NGO – Non Governmental Organization  
NSE – National Service of Employment  
OECD – Organization for Economic Co – operation and Development  
REO – Regional Employment Office  
SEE – South East Europe  
SME – Small and Medium Enterprises  
SOE – Socially Owned Enterprises  
SOK – Statistical Office of Kosova  
SRSG – Special Representative of the Secretary General  
ULC – Unit Labour Cost  
UMA – Unit for Macroeconomic Analyses  
UNMIK – United Nation Mission in Kosova  
USAID – United States Agency for International Development

## INTRODUCTION

This report addresses the issues of the labour market, employment and unemployment in Kosova and discusses the policy issues relating to labour market developments. It is prepared as part of the project 'Promoting Economic Development Through Civil Society', Phase II, which is supported by the United States Agency for International Development (USAID).

The objectives of the report are as follows:

- (i) To analyse the unemployment problem, its dimensions and structure in Kosova,
- (ii) To give an overview of the legislative framework in Kosova as regards the labour market and unemployment and the current stage of development of labour market institutions and policies,
- (iii) To analyse the relevant experience of other transition countries with reference to the development of the labour market in Kosova,
- (iv) To propose policy recommendations for establishing the proper foundations for labour market development in correlation with an adequate employment policy.

The following are the activities which Riinvest undertook in order to prepare this research report:

- (i) Meetings with the key actors in the labour market in Kosova (the Ministry of Labour and Social Welfare, seven Employment Offices, the Ministry of Education, Science and Technology, the Ministry of Economy and Finance etc.),
- (ii) Cooperation with the MEF – Unit for Macroeconomic Analysis, through joint teams, for the estimation of employment in different sectors,
- (iii) Identification and analysis of the studies and publications produced so far with regard to the labour market and unemployment in Kosova,
- (iv) A survey to obtain first hand data on the labour market and unemployment issues in Kosova, supported by the MEF – Macroeconomic Analysis Unit,
- (v) A survey of 600 private SMEs in Kosova,
- (vi) A review of studies (research reports) produced by Riinvest, especially reports on private sector development and employment generation,
- (vii) Analysis of all regulations/laws on the labour market issued to date,
- (viii) Study visits to Albania (Ministry of Labour in Albania, Employment Offices in Berat, independent research institutions) (Annex 2),
- (ix) A special short presentation on experiences from Bulgaria has been provided by IME, Sofia (Annex 2),
- (x) Analysis of the experiences of other transition countries and of EU countries as regards labour market developments,
- (xi) Two workshops delivered by two foreign consultants engaged in this project: a) 'Main trends in the labour market in EU countries and the impact of the education system on the labour market', delivered by Professor Nick Adnett; and b) 'Labour Market Policies in Transition Countries' by Mr. Mateusz Walewski.

Within the project activities and as part of the technical assistance, Riinvest has contracted two experts: Professor Nick Adnett from Staffordshire University, UK, and Mr. Mateusz Walewski from CASE, Poland. They, and especially Edward Funkhous, have provided valuable inputs in constructing the questionnaire for the Labour Force and Households Survey.

The report is made up of three main sections plus the annexes. The first section describes the socio-demographic situation in Kosova, the economic activity of the population, the unemployment situation, labour market institutions and policies, and the education and training programmes and their relation to the labour market. The second section briefly gives the experiences from abroad, from transition countries as well as from EU countries, in terms of labour market developments. This is important since there are lessons to be learnt for Kosova. The third

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section gives the relevant policies to be implemented in Kosova. Finally, in the annex, two case studies are given (the labour market in Albania and in Bulgaria) and an outline of the survey methodology and sample.

Riinvest would like to acknowledge the following contributors to the development of research activities in the preparation of this report:

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- (vii) Regional Employment Offices and their staff,
- (viii) The Ministry of Education, Science and Technology.

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## EXECUTIVE SUMMARY

1. Based on the last census of the population, which took place in 1981, the statistical trends for 1991 and the LMF and Household Surveys (Riinvest 1999, 2002), the population of Kosova in 2002 is estimated to be around 2,500,000, with around 2,050,000 living in Kosova. As much as 55% of the population live in rural areas. This might be the result of mobility after the war, caused by the large-scale devastation that took place in rural areas during the war. As much as 32.3% of the population in Kosova is under the age of sixteen and 63% is aged between 16 and 64 years old. This determines the extent of the labour supply, and the labour force inflows in Kosova are very significant. A young population and large-scale emigration constitute the two most important determinants for the labour force. Excluding the emigration part of the population, it is estimated that the working age population in Kosova is 59% of the total population, which means that there are some 1,210,000 people of working age.
2. Survey data shows that the activity rate in Kosova is 58% - which means that only 58% of working age population is active (either employed or unemployed). A breakdown of the working age population gives the following figures: employed to working age population ratio 29.5%, unemployed to working age population ratio 28.4%, and non-active to working age population 42.0%.
3. Nearly 70% of those employed work in the private sector (private businesses and agriculture). Private business is providing employment for large labour force inflows and also for those who lost their jobs from SOEs in the early 1990s. Nevertheless, employment in SOEs and in Government institutions still constitutes a significant part of the total employment (together they account for 30% of total employment). Although no real data exists, employment in agriculture is estimated to be around 22% of total employment. Agriculture, trade, education and health, services and construction account for as much as two-thirds of total employment. It seems that considerable labour reallocation has occurred in Kosova compared to the structure of employment at the end of the 1980s. Jobs in the public sector (socially owned and public enterprises and government) have been reduced from 245,400 (1988) to 126,000 (2002), or by 52%.
4. The most troubling aspect of the labour market in Kosova is the very high unemployment rate. Based on survey data, the unemployment rate is 49%, which is several times higher than in other transition countries. Taking into account seasonal effects and the informal sector, especially in agriculture, the unemployment rate could be estimated to be around 38%. It is extremely high for females (63%), despite a very high inactivity rate amongst women. It is estimated that only 40.6% of working age females are active, while only 36.4% of them are employed. In addition, the unemployment rate is extremely high for young persons (those aged between 16 and 24), and is estimated at 71.6%. Moreover, as much as 40% of the total unemployed are in this age group. The other main characteristics are:
  - Very high long-term unemployment (83% of total employment)
  - Very low level of voluntary unemployment – the minimum accepted salary by the unemployed is below the average (around 200 Euros)
5. The inactivity rate of the Kosovar population is very high, especially for women and for those who cannot find a job and have withdrawn from the labour force (nearly 50% of them have not had a job for as long as 12 months). They may also be described as the desperate unemployed. They constitute the group of people that is very likely to enter the labour force as the chances for employment increase. Another interesting group of inactive persons are those who are inactive because of school attendance.

6. Based on data from the Ministry of Labour and Social Welfare, more than 250,000 unemployed people registered at Employment Offices by the end of 2002. Yet as the survey data shows, only 58% of the unemployed are registered at Employment Offices, the main reason being that these offices have limited capacities to find jobs. However, it seems that the situation is improving. Some 3,730 have been employed as a result of the intermediation of Employment Offices and more than 1,600 have been included in training programmes provided by the 8 training centres.
7. The labour market in Kosova is still taking shape in terms of the institutions and the policies relating to it. The MLSW is becoming a very visible factor in building up these institutions. The legal framework has recently been completed and so far appears to be very basic. While it is true that a number of practical issues are not covered by the current legislation, its simplicity, from the point of view of a transition economy, may be argued as having a positive impact with respect to the labour market. The Essential Labour Law is mainly a basic document that provides for well known standards such as non-discrimination, prohibition of compulsory labour, working hours not exceeding 40 hours per week, minimum age for work, terms of employment contracts, termination of labour and some general rules concerning the social obligation of an enterprise towards its employees.
8. The Government's budget constraints in general, and the limited capacities and experience of the Ministry of Labour and Social Welfare in particular, is limiting the role of the latter in combating high unemployment in Kosova, especially for young persons and females. The unsolved issue of the political status of Kosova impedes the efforts of this Ministry from entering into international agreements with foreign governments that would provide employment opportunities abroad for Kosovars. This is important, since the domestic market simply cannot absorb the high labour inflows that are being added each year to the labour force in Kosova. Despite that, a number of passive and active labour market policies are yet to be adopted.
9. The education system in Kosova is undergoing reform, which has involved every level of the system. Apart from the curricula, the reform has involved the organisation and institutions. In 2001 government expenditure on education in Kosova was approximately 3.8% of GDP, which is comparable to that found in low and middle-income countries. On the other side, 16% of the Kosova Consolidated Budget in 2001 and 2002 is spent on education, whereas for 2003 around 22% of the total budget is attributed to the expenditure on education. Yet the SME survey data shows that the education system is not producing graduates with appropriate skills. Therefore, additional reforms are necessary and these reforms should be based on the demands of the labour market. The experience of other transition countries shows that a mix of active and passive labour market policies is necessary in order to induce unemployed people to look for jobs and enter training programmes. The focus of training programmes should be the skills and professions demanded by the labour market. On balance, more emphasis should be placed on active labour market policies since these make unemployed people more employable. Reform of the labour market in Kosova should be in line with the EU's employment strategy. Moreover, future integration with the EU labour market should be the target of labour market reforms in Kosova. There is a need to introduce systems of performance monitoring across the education, training and employment service systems. Measuring outcomes and evaluating current policy, and hence the ability to set appropriate targets and or reform current policy, is the main rationale for improving the systematic measuring and monitoring of labour market performance.
10. As unemployment in Kosova is mainly a consequence of the inherited level of economic development, the key issue is to build up a sound macroeconomic policy which would provide the framework and conditions for operation on a national labour market, able to preserve

existing, and especially create new, jobs. A job creation policy –increasing the possibilities of productive work for Kosovars - is a key problem and should be targeted by the strategy of economic and social development. This strategy is not yet in place and that represents a serious obstacle to building a more logical correlation between economic policy, employment policy and social policy, which should lead to a more employment-friendly climate and sustainable employment-increasing trends. Labour Market policies are aimed at expanding the possibilities for individuals to be employed and increasing the labour demand to absorb the net inflow of new entries onto the labour market of about 21,000 – 25,000 persons per year.

11. An issue of an urgent nature is the consolidation of the Labour Market Information System and Statistics. The Ministry is providing monthly statistics on the registered unemployed and on the activity of Employment Offices (mediation and training). But the statistics on employment/unemployment trends, based on a regular system of household surveys, are not in place. These surveys should track the economic activity of the population and provide data for proper LM segmentation and policies.

## RECOMMENDATIONS

1. Job creation should be the main focus of the policy makers and of the development strategy of Kosova. Creation of a friendly investment environment is necessary to reduce the high unemployment rate and absorb net inflows and new entries into the labour market. We recommend that the government and UNMIK outline the development strategy and explore to what extent the economic policies in place are in accordance with this primary goal. In line with our previous research reports we recommend:
  - (i) Further improvements in the taxation policy (possible incentives for capital goods and agricultural imports),
  - (ii) Improved conditions for lending to SMEs and family businesses,
  - (iii) Elimination of trade barriers and obstacles with neighbouring countries for Kosovar businesses,
  - (iv) Creation of an aggressive programme to attract FDI.
2. It is necessary to further support the activities of the Ministry of Labour and Social Welfare to enhance its implementation capacities with respect to the coordination of activities for relevant stakeholders of labour market institutions and policies:
  - (i) Further technical assistance in capacity building within the Ministry, Employment Offices and Vocational Training Centres,
  - (ii) To develop flexible labour legislation and strengthen labour inspection,
  - (iii) Development of training programmes based on labour market needs with more interaction with employers and cooperation with business associations,
  - (iv) Development of a promotional education campaign for affirmation of the role of Employment Offices in intermediation in employment and career development,
  - (v) Targeting and providing vocational training to specific groups and segments of unemployed people (e.g. women, youth, rural, urban).
3. The developments and reforms in the education system should reflect labour market needs in Kosova, as well as in the EU zone. It is necessary to develop more coordination and cooperation between secondary schools, the university and the Employment Offices, while focusing more on career development and job seeking skills. Practices and parameters for measuring the quality of the outputs of the educational institutions should be considered as key elements of an overall reform of the education system.
4. We recommend that the implementation of labour market instruments such as: (a) a minimum wage; (b) benefits for the unemployed; (c) taxes and contributions on wages for the unemployed, have to be carefully analysed, not only in the light of current budget limitations, but also because of the adverse effects on job creation and the informal labour market.
5. We recommend that the MLSW and the Statistical Office of Kosova, in cooperation with research organisations, establish a permanent collection of relevant data on employment/unemployment trends, based on a system of periodic household surveys and other sources, as the basis of a sustainable Labour Market Information System and Statistics.
6. Electronic systematisation of labour market data, stimulation of the exchange of information on the labour market, support for the publication of different reports and information on the labour market in Kosova and abroad, etc.

## I. THE SOCIO-DEMOGRAPHIC SITUATION AND THE LABOUR MARKET

### I.1. POPULATION

#### I.1.1. Population forecasts

Assessment of the demographic processes in Kosova appears particularly difficult due to the lack of official statistical data. The last census of the population in Kosova dates from March 1981. At that time, Kosova had a population of 1,584,000 and the average growth rate of the population was 2.4 % per year. According to common statistical forecasts, in 1991 the population should have reached 1,928,000 to 2,030,000 inhabitants. Scientific institutions and the Institute for Development of Kosova evaluated that in 2001 Kosova had a population of 2,450,000, based on moderate estimations (the growth rate was around 2.1%).

During the 1990s huge distortions were observed in the demographic processes, due to the high level of migration (15-20%), while most of these people were 18-35 years old. These distortions reached their peak in 1998 and 1999, due to the armed conflicts that occurred. Around 54% of the population was deported outside Kosova and 24% was displaced within the territory (Households with 3,500 families, Riinvest August 1999). The rapid return of the displaced population and the successful post-war reconstruction has led to normal and stable development with respect to population growth and socio-demographic processes.

The post-war research conducted by different organisations (IOM, UNPFA, World Bank, Riinvest) has resulted in different estimations with respect to the size of the Kosovar population, mainly stemming from differences in the number of Kosovars living outside Kosova either as emigrants, refugees or displaced persons.

Table 1.1: Population 1981-2002

Year	Population
1981 (registration)	1,584,000
1991 (estimation)	1,982,000 – 2,030,000
2002 (estimation)	2,500,000

Research based on the findings of our Households Surveys (August 1999 and December 2002) showed a number of indications that led us to conclude that the rate of population growth between 1991 and 2002 was around 1.9-2% and the absolute growth of the population are an average of 42,000 inhabitants per year. If we apply this finding to the official estimations of the population in 1991, the number of inhabitants in Kosova by the end of 2002 would reach around 2.5 million, including the migration components.

According to the survey conducted in December 2002, approximately 7% of family members live outside Kosova. The survey has excluded Kosovar families that are living abroad as a whole, which is a common phenomenon after the war. Estimates are that this category accounts for around 350,000 persons, plus the 100,000 members of minority groups who are currently living outside Kosova. Thus we can conclude that nowadays there are 2,050,000 inhabitants living in Kosova. Approximate figures can also be reached if we consult the voters list from the last election, which reflects the population structure as given by the survey.<sup>1</sup>

<sup>1</sup> The population development in Kosova 1948-1981 and its projection up to the year 2021

1948	1953	1961	1971	1981	2001	2021
728,000	816,000	964,000	1,244,000	1,584,000	2,482,000	3,171,000

Source: Studies of the Development Entity of Kosova (1988).

## I.2. Changes in population structure

The gender structure of the population is almost balanced (according to survey findings 50.3% males: 49.7% females). After the war, the urban population has increased considerably, because the rural population moved to urban areas as a result of the huge devastation suffered during the war. In addition, there is also a tendency to leave rural areas. The following table shows that the urban population has reached 35% to 45% compared to the period before the war. The population from destroyed and damaged locations was initially sheltered in urban areas, which was also closer to emergency aid.

Table 1.2: Urban and rural population (%)

	1981	1991	2002
Rural pop.	67.5	65	55
Urban pop.	32.5	35	45

It is a widely known fact that the Kosovar population is predominated by the younger age groups: over 30 % are up to 15 years old, while around 63% are under 30 years old with nearly 5 % of the whole population over 65 years old.

Due to the negative impact of events that have occurred over the last decade, which have played a role in the reduction of the childbirth and population growth rates, the age group 0-15 has reduced by 2.5% compared to the estimations upon statistical trend. In addition, the proportion of the age group 15-65 in the overall population has increased.

This young population will continuously press the labour market for new jobs, having in mind the current employment situation. At the same time, the young population constitutes an important development factor, requiring a proper education level in accordance with the current demands of technology and entrepreneurship. It should be noted that the participation of pensioners (the population over 65 years old) is still low and does not constitute a heavy socio-economic burden.

Tabela 1.3: Struktura e moshës së popullsis

Age range	Percent	Cumulative Percent
0-6	12.6%	12.6%
7-14	17.5%	30.1%
15-18	9.0%	39.1%
19-24	12.4%	51.5%
25-30	11.4%	63.0%
31-40	13.6%	76.5%
41-50	9.5%	86.0%
51-60	7.2%	93.3%
61-64	2.0%	95.3%
65 and over	4.7%	100.0%
Total	100.0%	

Source: Households Survey, Riinvest, December 2002

### I.3. Education level

The Households Surveys (1999 and 2002) resulted in similar findings with respect to the education structure of the population. The following table includes everyone over 6 years of age who is currently pursuing or has finished a certain level of education.

However, the low participation of the population in secondary and higher education can be easily observed, and this has had a particular effect on employment opportunities and labour supply.

Table 1.4: Education structure of the population – current and completed

Level of education	Percent
1. Without education	9.6%
2. Primary	44.0%
3. Secondary	37.7%
4. High	8.7%
Total	100.0%

Source: Households Survey, Riinvest, December 2002

## I.2. THE ECONOMIC ACTIVITY OF THE POPULATION

According to the results of the survey with 1,252 households, (or 8,552 persons) (Riinvest, December 2002) it appears that 62.9% of the total population are between 16 and 64 years of age and therefore belong to the working age group. Based on this, in 2002 more than 1.5 million persons belonged to the working age group, including the migration component.

The survey also revealed that 77% of the population living abroad (around 450,000) belong to the working age group. If we subtract the number of working age people living abroad from the total number of working age people, we obtain the size of the working age group in Kosova, which is around 1.2 million. In relative terms, the working age population comprises 58%-60%<sup>2</sup> of the total population of Kosova (without the migration component).

Table 1.5: Division of population based on age and economic activity

Description	Number	Percentage
Total Population	2,500,000	100.0%
<input type="checkbox"/> From 0-15 years old	807,500	32.3%
<input type="checkbox"/> From 16-64 years old	1,575,000	63.0%
<input type="checkbox"/> Over 65 years old	117,500	4.7%
Population in Kosova	2,050,000	100.0%
Working age population	1,210,000	59.0%
Active population	702,000	58.0%
<input type="checkbox"/> Employed <sup>3</sup>	430,000	61.1%
<input type="checkbox"/> Unemployed <sup>4</sup>	272,000	38.9%
Non-active population (out of the labour force)	508,000	42.0%
The structure of non-active population		
<input type="checkbox"/> Housewives	187,960	37.0%
<input type="checkbox"/> Pupils and students	101,600	20.0%
<input type="checkbox"/> Early retirees	11,684	2.3%
<input type="checkbox"/> Infirm	40,640	8.0%
<input type="checkbox"/> Too young or too old	41,656	8.2%
<input type="checkbox"/> Those who left the labour market (disscouraged)	80,264	15.8%
<input type="checkbox"/> Others	44,196	8.7%

Source: Households Survey, Riinvest, December 2002 and estimation

The results of the survey with households show that the working contingent (employed and those who are seeking jobs) includes 58% of the working age population living in Kosova, which is equivalent to 700,000 persons.<sup>5</sup> This result is consistent with other estimations undertaken by other institutions in Kosova, despite the fact that they haven't been able to predict the flow of population.<sup>6</sup> A breakdown of the working age population gives the following figures: employed 35.5%, unemployed 22.5%, and non-active 42.0%.

<sup>2</sup> If we deduct the number of working age population located abroad from the working age population within Kosova, then the figure for this category falls to 59.8%.

<sup>3</sup> We have added to employed people those who say that are unemployed but owe a piece of land of over than 0.5 hectare. Otherwise, employment rate is 51% (which would give us unemployment rate of 49%).

<sup>4</sup> Unemployment rate presented here is calculated based such that those who are unemployed and owe a piece of land of over than 0.5 hectares are considered as employed in agriculture. Otherwise, the normal definition of unemployment would give us an unemployment rate of 49%.

<sup>5</sup> The rate of active population (active working contingent) based on the survey results is around 58%.

<sup>6</sup> Based on estimations in 1988 in relation to the demographic trends, it was projected that in the year 2001 the working contingent would reach the figure of 845,000 persons. See the following table:

	1981	1991	2001	2011	2021
Total	378,827	592,389	845,108	1,178,056	1,540,617
Male	320,515	456,382	619,848	792,371	967,889
Female	58,312	136,007	225,260	385,685	570,728
Rural	86,929	104,617	105,062	131,580	167,914

As one can see from the figures presented above, the percentage of non-active population is very high (42%). The structure of this category is dominated by housewives (37%) engaged in daily house-keeping tasks which prevent them from applying for a job; then pupils and students (20%); followed by persons who left the labour market disappointed as a result of not being able to find a job for a long time (15.8%); persons who are infirm (8%); and finally those who belong to the upper or lower age limits (too young or too old) (8.2%). However, these proportions may change because a considerable part of this category can flow to the active unemployed group.

### I.2.1. Employment

#### a) Statistical data

It is estimated<sup>7</sup> that 61,555 persons are employed in Socially Owned Enterprises. Based on the same information sources (sources relied upon by the Statistical Office of Kosova) 124,023 are employed in private enterprises. 65,187 workers in education, health and government institutions are paid from the Kosova Consolidated Budget<sup>8</sup>. International organisations, donors, NGOs and other organisations related to them employ around 17,522 people<sup>9</sup>.

Table 1.6: Employment in the period 2000-2002

	2000	2001	2-Sep	2002/2000	%
Socially Owned Enterprises	54,153	61,023	61,555	1.14	22.94%
Private enterprises	88,062	116,237	124,023	1.41	46.23%
Public sector	56,971	62,409	65,187	1.14	24.30%
International organisations/NGOs	18,015	17,771	17,522	0.97	6.53%
Total	217,201	257,440	268,287		100.00%

Source: Official Statistics (MEF, SOK)

No data is available for the number of workers employed in agriculture. The only data available is an estimation by the World Bank (according to which the number of persons employed in agriculture is around 200,000), and the Macroeconomic Analysis Unit of the Ministry of Economy and Finance (which also estimates employment in agriculture at the level of 200,000). On the other side, Riinvest estimations show that agricultural employment is around 100,000.

#### b) Riinvest LFS

Based on data from the Riinvest Labour Force and Households Survey (Riinvest LFS), the number of employed people in Kosova is estimated to be around 430,000. A considerable proportion of them are employed in private businesses (45% of the total number employed people) and in agriculture (22%). If we take account of seasonal employment then the number employed in agriculture goes up as many as 160,000 people. However, in the following table only those who have a permanent job are counted as employed in agriculture. The governmental sector (education, health, police, KPT, administration etc.) and socially owned and public enterprises (which are under the administration of the Kosova Trust Agency) are responsible for 30% of total employment.

From 1990-1999 a huge number of employed people were expelled from their working place resulting in an employment flow to other sectors, like agriculture and the Small and Medium Enterprise Sector.

<sup>7</sup> Banking and Payments Authority of Kosova: *Monthly Statistics Bulletin*, Year II, November 2002, Number 14.

<sup>8</sup> World Bank, *The Medium-run Public Expenditure Priorities* Report No. 24880, October 2002.

<sup>9</sup> Data from the Ministry of Economy and Finance – Macroeconomic Unit

Table 1.7: Employment according to Riinvest LFS

	Employed	Percent
Socially owned and public enterprises (2)	61,555	14.3%
Private businesses (1)	188,276	44.8%
Governmental sector (2)	65,187	15.2%
International organisations and NGOs (2)	17,522	4.1%
Agriculture (1)	97,460	22.2%
Total	430,000	100.0%

Source: (1) Households Survey, Riinvest, December 2002

(2) Official Statistics (MEF, SOK)

Private sector employment in Kosova accounts for 67% of total employment. Bearing in mind the development trends of SMEs, the need for the development of agriculture and the process of privatisation (which will start soon), it can be concluded that the private sector remains practically the only sector for generating new jobs in the future.

The survey data shows a different number of people employed in private enterprises and sole proprietors compared to the number published by the official statistics. The survey data shows employment in this sector to be 64,000 higher than that claimed by the official statistics. There is ground to believe that these people make up what is known as informal employment, such as those employed in small and medium-sized private enterprises, the self-employed, and those involved in handicrafts and owners of different machines and equipment. Employment in these categories accounts for as much as 15% of total employment and 34% of employment in the private sector.

It is also worth noting that according to the survey data, 34.3% of employed people do not pay income taxes.<sup>10</sup> Most of these people are informally employed in small and medium-sized enterprises.

For the sake of clarity, one should notice that this part of the report is being build on the fact that all those who, by normal definition of unemployment, are unemployed but owe a piece of land are considered as employed in agriculture. This gives us employment in agriculture of 22% of total employment and brings down unemployment from 49% to 38%.

## I.2.2. Employment structure

Economic sectors such as trade, health and education, construction and transport and communication constitute the sectors where most employment is concentrated. On the other side, employment according to gender shows that females make up only 26% of total employment; therefore their position is less favourable.

Females are mainly employed in the public sector (42.4%), in health and educational institutions, other services and in agriculture. Employment of males is more evenly spread across the economic sectors, while most of them (54.3%) are employed in the private sector.

<sup>10</sup> This number matches up exactly to the number of employed in the informal sector.

Table 1.8: Structure of employment according to economic sectors

Sector	Total
Agriculture	22.2%
Mining	1.8%
Industry	3.7%
Construction	6.7%
Transport & communication	3.4%
Utilities	5.0%
Trade	11.5%
Finance	1.9%
Administration	4.2%
Health and education	13.5%
Hotels and restaurants	3.4%
Other services	6.1%
Other	7.2%
Don't know	0.7%
No answer	8.6%
Total	100.0%

Source: Households Survey, Riinvest, December 2002

Of the total number of employed, over 65% are salaried workers, around 17% are self-employed, 5.7% are employers, 7% have family businesses, and 5% work on the family farm. More than one-third of employment (37%) is concentrated in small enterprises. Working relations are regulated in different ways. Survey data shows that 49% of employed people are employed based on a formal agreement, 5.6% are not registered as employed, 7.8% say that they have only an oral agreement and the remaining 35% say that their status of employment is partially regulated based on an oral agreement.

### I.2.3. Informal Employment

The informal sector has various implications for the economy of a country. Its impact on social policy and the labour market is of particular importance because it provides a very important source of income and employment, especially in countries where employment in the official sector is limited and a system of social security is absent. Kosova can be characterised as a country having these features. Based on several estimations, the informal sector in Kosova comprises an important part of the economy as a whole due to the lack of comprehensive legislation, the rate and dispersion of taxes, as well as other factors. Several questions in the Riinvest Survey with 1,252 households measure the level of unofficial employment, based on several criteria (see the table below).

Table 1.9: Informal employment based on various criteria

Criteria 1		Criteria 2				Criteria 3	
Taxes unpaid		Contractual relationship				Occupation <sup>a</sup>	
No. of respondents	Informal employ.	No. of respondents	No contract	Oral agreement	Informal employ.	No. of respondents	Informal employ.
500	34.3%	175	5.6%	7.8%	13.4%	113	8.9%

Source: Households Survey, Riinvest, December 2002

Note: <sup>a</sup> – Here we include several minor businesses: seller in the street, seller in the green market, construction worker, master for electric equipment and auto mechanic.

The responses obtained show that a considerable number of entrepreneurs do not pay taxes for their employees (34.3%). On the other hand, a significant proportion of employees do not have a formal agreement (contract) with their employer but a contractual relationship based on an oral agreement, or no agreement at all (13.4%). This percentage would be even higher if we add the proportion of those who do not know the nature of their contractual relationship with their

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employer (2.5%). Another category of responses shows that 8.9% of respondents undertake unregistered minor business or handicrafts. Based on all the criteria, one can conclude that informal employment in Kosova ranges from between 15-22%. In other transition countries this figure varies greatly, reaching more than 50% in Georgia, although in Bulgaria this figure ranges from between 2.5% to 15%.

One of the main causes of informal employment is the level of taxes, followed by complicated regulations and the existence of state bureaucracy. As far as Kosova is concerned, the burden and distribution of taxes has had a great impact on increasing the level of the informal economy, especially informal employment.

## I. 3. UNEMPLOYMENT

In this section, unemployment and its structure is outlined. Comparisons with other countries are made wherever possible. Due to the lack of data sources, this section is based mainly on the Riinvest LFS and Households Survey. We also use other data sources to reinforce or to contrast with the Riinvest LFS data. The section starts with an outline of the main characteristics of the labour market due to the demographic features of Kosova. Then the structure of unemployment is examined (youth unemployment, long-term unemployment, unemployment by level of education etc.). The section continues with consideration of the minimum acceptable wage and the consequences for unemployment as well as policy implications. Finally, the role of Employment Offices is examined.

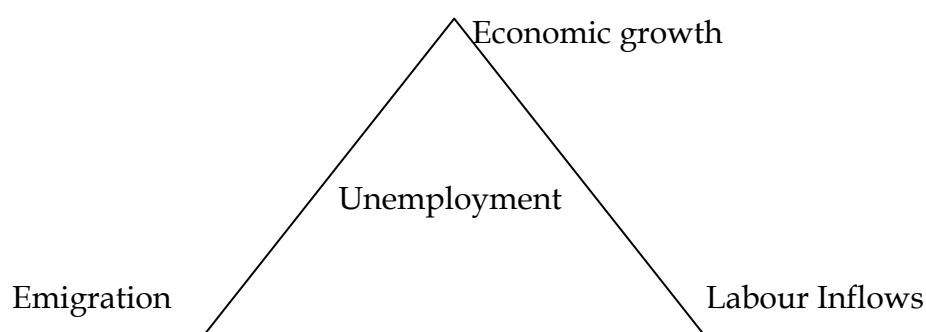
### I.3.1. Labour market characteristics and the implications for unemployment

The labour market in Kosova has some distinctive characteristics compared to other transition countries. Almost all data sources report that one-third of the population is under 16 years of age and just over 50% is under 24 years of age. Due to this fact, there are large labour inflows. Given the high unemployment rate in Kosova (which has prevailed for 12 years), there are grounds to believe that most labour inflows are towards unemployment. Apart from that, due to the low chances of finding employment, there are many that withdraw from the labour force. Therefore, in terms of labour flows Kosova is characterised by very large labour inflows (mostly toward the unemployment pool) and considerable labour outflows (mainly from unemployment to inactivity).

Conversely, political pressures and instability, especially the recent war, have influenced the labour force during the past decade. Due to the reduced opportunities to find a job in Kosova, many people of working age have emigrated. As survey data shows, 8.3% of the working age population (not including families) did emigrate. This is likely to bring down the unemployment rate in Kosova, because there are grounds to believe that unemployed people tend to emigrate more than employed people. Even if an employed person emigrates, a vacancy is created that can possibly be filled by an unemployed person.

Therefore, there are two opposing forces influencing the unemployment rate in Kosova - large labour inflows (due to the young population etc.) and emigration. The former pushes the unemployment rate up whereas the latter brings it down. It is very unlikely that these two forces balance each other, because unemployment is very high. The figure below explains these relationships. However, it is widely accepted that economic growth is the main determinant of the unemployment rate.

Graph 1.1: Main determinants of the unemployment in Kosova



### I.3.2. Defining unemployment<sup>11</sup>

Few studies have been conducted so far regarding the labour market in Kosova. The Statistical Office of Kosova (SOK) has undertaken some research in this respect. It conducted a Labour Force Survey (in December 2001), where the unemployment rate in Kosova was estimated to be as high as 57%. Other labour market indicators from this survey are presented in the table below.

Due to the lack of studies and in order to shed more light on labour market insights, the Riinvest Institute also undertook research.<sup>12</sup> In defining whether a person is unemployed, the criterion of job searching is used<sup>13</sup>. In addition, a person is considered to be unemployed if he/she is of working age and within Kosova. The latter criteria are important because the interviewed households are asked about family members abroad as well those in Kosova. Of the 8,552 persons that the survey provided data for, some 4,937 persons are of working age and within Kosova. Out of this number, 1,403 are regarded as unemployed and the rest are either employed or inactive/out of the labour force.

The table below shows the main indicators of the labour market in Kosova from two sources, the Riinvest LFS and the SOK LFS, the latter conducted in December 2001. The unemployment rate reported from the Riinvest LFS is lower than that reported by the SOK LFS. In the Riinvest LFS, respondents are asked several times whether they had taken any job whatsoever during the reference period in order to provide any form of income or contribution to the household. Based on these answers the unemployment rate, as well as the other labour market indicators, was defined. However, we are aware that underemployment might be present, therefore increasing the employment rate and decreasing unemployment, but this does not affect the activity and inactivity rates.

Table 1.10: Labour market indicators

	Riinvest LFS*			SOK LFS**		
	Total	Female	Male	Total	Female	Male
Employment to working age population ratio	29.5	14.8	45.1	20.0	8.2	31.8
Unemployment to working age population ratio	28.4	25.8	31.2	26.7	19.2	34.2
Activity rate	58.0	40.6	76.3	46.7	27.4	66
Employment rate	51.0	36.4	59.2	42.9	30.1	48.3
<b>Unemployment rate</b>	<b>49.0</b>	<b>63.6</b>	<b>40.8</b>	<b>57.1</b>	<b>69.9</b>	<b>51.7</b>

\* Source: Households Survey, Riinvest, December 2002, \*\* SOK LFS, December 2001

The Riinvest LFS reports the unemployment rate in Kosova at 49%, which is higher than in all countries in South East Europe. After Kosova, FYR Macedonia has the highest unemployment rate of these countries (34% in 2001). However, when comparing unemployment rate between different countries it should be noted that different methodologies are applied in different countries, making the comparison difficult and not straightforward. The very high unemployment rate in Kosova can be explained partially by the repressive situation during the 1990s and the recent war, which limited economic growth as the main determinant of unemployment. On the other side, massive layoffs in the early 1990s and the lack of institutional support for the development of the private sector also contributed to the high unemployment rate.

<sup>11</sup> Unemployed person is that person who is of working age (16-64), is not working but is looking for job actively.

<sup>12</sup> See the attachment for more information on the methodological issues of the survey.

<sup>13</sup> This is the definition of unemployment that the ILO uses, which says that a person is unemployed if he/she is not employed but is actively looking for a job.

Table 1.11: Unemployment in some of the transition countries

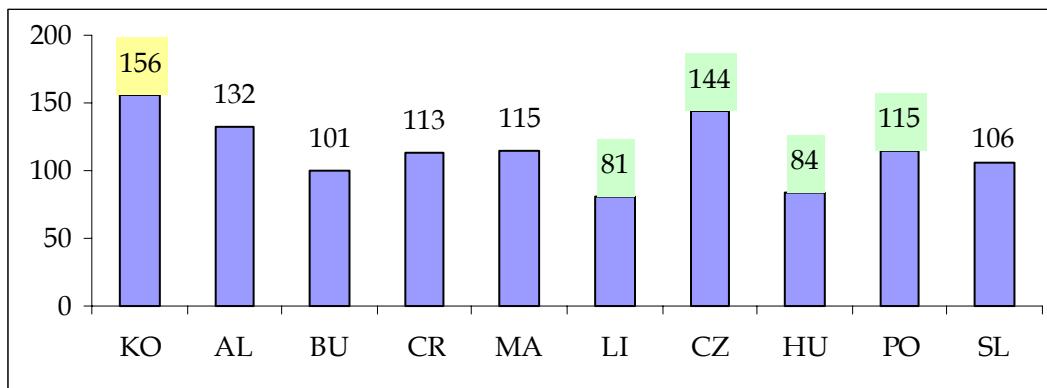
Countries	2001
Kosova	49.0*
Albania	15.2
Bulgaria	17.3
Croatia	23
Macedonia	34
Czech Rep.	9
Hungary	6
Poland	17
Slovenia	12

Source: Key Indicators of the Labour Market 2001-2002, ILO (2002)

\* Source: Households Survey, Riinvest, December 2002

As expected, the unemployment rate for females in Kosova is higher than for males (63.6% for females, 40.8% for males). This is in line with the experiences of other transition countries, except the Baltic countries (Estonia, Latvia and Lithuania) and Hungary and Romania, where the unemployment rate for females is lower than for males. The graph below shows the female unemployment rate across transition countries (including Kosova) when the male unemployment rate is taken as a base. We can see that the female unemployment rate in Kosova is 56% higher than the male unemployment rate, regardless of the fact that only 40.6% of working age females are active (meaning that 40.6% of working age females are in the labour force, either employed or unemployed).

Graph 1.2. Female to male unemployment rate



Source: Key Indicators of the Labour Market 2001-2002, ILO (2002)

Note: Unemployment rate for males=100

### A different approach to defining the unemployment rate

As explained in the demographic section, Kosova is a place where the agricultural share of output is still significant, due to the fact that as much as 55% of the population live in rural areas. All data on employment in agriculture are only estimations, because it is very difficult to determine the number of people employed in agriculture. This has implications for the unemployment rate.

In some countries, there is an established practice of considering as employed those unemployed who own a piece of land of more than 0.5 hectares. Such cases can be found in Albania or even in Poland. Possibly because of using such a definition, the unemployment rate in Albania is relatively low (around 15%). When using this methodology, the unemployment rate in Kosova goes down to 38%. However, this is an unconventional way of defining unemployment and we are aware that underemployment (working for less than normal working hours) and seasonal employment is present in the data, which has pushed the unemployment rate down. However, in what follows we are going to use the unemployment rate of 49%, as defined in the conventional way.

### I.3.3. Unemployment structure

#### Age structure of unemployment

Due to the distinctive characteristics of the labour market in Kosova (the very young population), most of those who are unemployed are between 16-24 years old. This age group accounts for 40% of total employed people. The reason might be that most of these people enter the labour force for the first time, and this conclusion is reinforced by the survey data, showing that 57.4% of unemployed people did not have a job previously – they moved from outside the labour force to unemployment.

Table 1.12a: Age structure of unemployed

Group age	Male	Female	Total
16-24	39.2%	41.4%	40.2%
25-34	30.4%	30.6%	30.5%
35-44	18.1%	19.5%	18.8%
45-54	8.0%	6.7%	7.4%
55-64	4.4%	1.8%	3.2%
Total	100.0%	100.0%	100.0%

Source: Households Survey, Riinvest, December 2002

All projections forecast that the labour force in Kosova is going to increase during the next few years due to the very young population and high fertility rates. From another point of view, this has its positive side – the dependency ratio is low compared to other transition countries, not burdening the budget position of the social security fund in Kosova. In other transition countries, unemployment was concentrated amongst old age persons, due to the transformation and restructuring process of state owned companies and the fact that in most of these countries the population is rather old.

The table below shows that males dominate in each of the age groups of the unemployed. However, one should be careful in interpreting this data, since at first sight the impression would be that males suffer from unemployment more than females. If we look further, we would see this is due to the high inactivity rate amongst females (the inactivity rate for females is 59.4%). Such a high inactivity rate amongst females is due to inappropriate working conditions in the labour market for females. Females are generally less flexible in terms of working time and other working conditions compared to their male counterparts. On the other hand, employers are usually reluctant to hire females because they are unstable workers (due to maternity leave, not being able to do hard manual jobs etc.).

Table 1.12b: Age structure of unemployed

Group age	Male	Female	Total
16-24	51.9%	48.1%	100.0%
25-34	53.1%	46.9%	100.0%
35-44	51.3%	48.7%	100.0%
45-54	57.7%	42.3%	100.0%
55-64	73.3%	26.7%	100.0%

Source: Households Survey, Riinvest, December 2002

According to data from Employment Offices (EO), 25% of the registered unemployed in Kosova are between 16-24 years old, 44.4% are 25-39 years old, 29.9% between 40-54 and the rest are 55 and over. Differences between the data from the EO and the Riinvest LFS are due to the fact that those who are registered at Employment Offices are workers who have lost their jobs from SOEs, either in the early 1990s or after the war.

## Youth unemployment

Youth unemployment is an issue of concern in all transition countries. Unemployment rates for those up to 24 years old in the Balkan countries are routinely twice or even three times higher than those of the total working-age population, and range from 18% and 20.8% in Slovenia and Romania respectively to 68.6% in the FYR Macedonia.<sup>14</sup> In recent years the young unemployed (up to 29 years old) have accounted for more than 50% of all unemployed in some countries. In Albania, 58% of all registered unemployed are below 31 years of age whereas in Croatia the rate is 53.9% of all unemployed.

Available data for other transition countries shows that the unemployment rate for young people is twice the national average unemployment rate, or even higher. As an illustration, youth unemployment in Bulgaria is 2.5 times higher than the country average, in Poland it is 2.9 times higher, in Slovenia 3.1 times and so on.<sup>15</sup>

Table 1.13: Youth unemployment in Kosova and in transition countries

Countries	National unemployment rate	Youth unemployment rate	Ratio of youth unemployment rate to adult unemployment rate	Share of youth unemployed to total unemployed (%)
<b>Kosova</b>	<b>49.0</b>	<b>71.6</b>	<b>1.4</b>	<b>40.2</b>
Bulgaria	14.1	32.6	2.5	23.5
Croatia	13.5	29.8	na	38.6
Romania	6.8	19.5	3.8	38.5
Czech Rep.	8.7	17.0	2.4	29.4
Hungary	7.0	12.4	2.1	27.6
Poland	12.5	30.0	2.9	26.4
Slovenia	7.4	18.2	3.1	31.1

Source: Key Indicators of the Labour Market 2001-2002, ILO (2002)

In the early 1990s (when the transition process started), it was thought that high unemployment amongst young people was only a temporary problem since they would be able to find jobs due to their ability to adjust to new conditions and their ability to easily acquire the new skills required by the demand side of the labour market. Later on, it was shown that this was related to the education, training and retraining system at national level. Given the rigid nature of the labour market and the necessary time that reform to the education and training system takes, youth unemployment became a serious problem, and many young unemployed became long-term unemployed.

In Kosova, this problem seems to be even worse given the very young population. As the table below shows, the unemployment rate for those aged 16 to 24 is nearly two times higher than the overall unemployment rate. The ratio of youth unemployment to the overall unemployment rate is 1.46. Compared to other age groups, youth unemployment is more than two times higher than for those aged 40-54 and 55-64 years old.

Table 1.14: Unemployment rate by age group

Age	Unemployment rate
16-24	71.6%
25-39	49.2%
40-54	29.2%
55-64	28.5%
Total	49.0%

Source: Households Survey, Riinvest, December 2002

<sup>14</sup> European Training Foundation (2000): Regional seminar on youth unemployment in South Eastern Europe; Velingrad, June 2000

<sup>15</sup> Key Indicators of the Labour Market 2001-2002, ILO (2002).

## Long-term unemployment<sup>16</sup>

There are several factors that contribute to long-term unemployment in Kosova. The first is the mass dismissal of workers in the early 1990s. According to estimations (ILO, Riinvest etc.) some 145,000 workers were fired at that time. These workers moved in three directions: some of them found jobs in the growing private sector or started their own businesses, some became inactive (mostly women and old age persons) and a considerable number of them became unemployed. Another constraint for reintegration of the latter group into employment is that most of them are of middle age or just approaching retirement. On the other side, due to the weak job creation process in Kosova during the past decade, most of those who entered the labour force for the first time (young age persons) mostly joined the unemployment pool.

These two forces have contributed to creating long-term unemployment in Kosova. As a result the share of long-term unemployed in the total unemployed is higher than compared to other countries for which data is available.

Table 1.15: Long term unemployment

Countries	Share of long term unemployed in total unemployed (%)
<b>Kosova</b>	<b>83.1</b>
Bulgaria	51.9
Czech Rep.	33.0
Hungary	48.6
Poland	33.8
Romania	30.4
Slovenia	43.2
Estonia	37.7

Source: Key Indicators of the Labour Market 2001-2002, ILO (2002)

Survey data shows that the share of the long-term unemployed (defined as unemployment for more than 12 months) in the total number of unemployed people is very high - 83% of unemployed people are long-term unemployed. However, there is one shortcoming in this data. A misunderstanding of the term 'employed' by the interviewed person may be one of the explanations for the high share of long-term unemployed persons in the total number of unemployed. It seems that people consider themselves to be unemployed unless they have a permanent and full time job. Otherwise, it is unlikely that a person did not work at all for as long as ten years.

Table 1.16: Duration of unemployment (total unemployed = 100)

Months	Male	Female	Total
1-12	19.5%	14.7%	16.9%
13-24	13.5%	10.6%	12.0%
25-36	11.8%	9.8%	10.8%
37-48	7.1%	6.0%	6.5%
Over 48	48.1%	58.9%	53.9%
Total	100.0%	100.0%	100.0%

Source: Households Survey, Riinvest, December 2002

Both the male and female unemployed suffer from long-term unemployment, though for the latter the long-term unemployment share in total unemployment is higher. Female workers are disadvantaged compared to their male counterparts during the process of hiring due to their particular factors, which make them less attractive for private employers. This is likely to be the

<sup>16</sup> Long term unemployment is considered unemployment for longer than 12 months.

explanation for high long-term unemployment amongst female workers even though there is no data to support this.

It is very likely that due to the minor chances of getting a job, many people withdraw from the labour market altogether. This is most likely for female workers, for whom the survey data shows that only 40.6% of working age females are active (with only 36.4% of those who are active actually employed).

### Unemployment by education

Econometric studies conducted in other transition countries have revealed that less educated people have higher probabilities of being unemployed. This probability is different across and within countries, but it seems that this tendency prevails over all countries and regions. Nearly two-thirds of the unemployed in some of the transition countries possess secondary education and one-quarter possess only primary education, whereas in industrialized countries, unemployed workers are more evenly distributed amongst the different levels of education.<sup>17</sup> Kosova is not an exception, with 58% of unemployed people possessing secondary education and another 33% having only primary education.

Table 1.17: Unemployed by level of education in 1999 (total unemployed=100)

Countries	Primary (Levels 1 & 2)	Secondary (Level 3)	Tertiary (Levels 5, 6 & 7)
<b>Kosova</b>	<b>32.6</b>	<b>58.5</b>	<b>7.0</b>
Bulgaria	7.4	85.3	7.3
Croatia	19.5	69.1	11.4
Czech Rep.	24.2	72.1	3.7
Hungary	32.5	61.6	3.2
Poland	33.1	64.8	2.0
Romania	21.7	70.6	6.4
Slovenia	28.2	64.8	7.0
UK	22.5	35.6	42.1
Sweden	32.0	50.6	15.8

\* Less than primary for this category. The levels of education are based on the ten levels of the International Standard Classification of Education (ISCED), which is designed by UNESCO. If the three columns do not give 100% then there are some minor differences in the national system of education.

Source: Key Indicators of the Labour Market 2001-2002, ILO (2002)

Female workers make up more than 50% of the low educated group (without or with only primary education) of unemployed persons. The fact that most of the vacancies for low educated workers are filled by males (since these are jobs that require physical ability as they are manual jobs, such as in construction etc.), might be one of the explanations for the dominance of female unemployed in the low educated group of unemployed people. In addition, this is due to that fact that females are in general less educated than males.

Table 1.18: Unemployed people by the level of education

Education	Male	Female	Total
1. Without ed.	33.3	66.7	100.0
2. Primary	45.4	54.6	100.0
3. Secondary	58.8	41.2	100.0
4. High	49.0	51.0	100.0
Total	53.3	46.7	100.0

Source: Households Survey, Riinvest, December 2002

<sup>17</sup> More on this see: Hoti, Avdullah (2002): Labour Market Transformation and Implications For Unemployment in Transition Economies: Experiences From South Eastern European Countries and Lessons for Kosova; Staffordshire University Business School, Division of Economics, UK. (MA Dissertation).

## Regional unemployment

Regional disparities in the unemployment rate are evident throughout transition countries. Urban areas usually have lower unemployment compared to rural areas. Available studies conducted in transition countries show that the main causes for this are obstacles to the mobility of the labour force between regions, such as the lack of appropriate housing in urban areas and high transportation costs.<sup>18</sup> Regional unemployment differentials are also correlated with the spatial distribution of ethnic minorities. Moreover, high concentrations of heavy industries in certain areas (mono-structural regions) during the previous system, give rise to regional disparities in unemployment.

In Kosova, there does not seem to be a huge disparity in the unemployment rate between urban and rural areas. As survey data shows, the unemployment rate in urban areas is 43.6% (some 5.4% lower than the country average), while in rural areas it is 54.5%, in line with the experience of other transition countries.

Table 1.19: Urban / Rural unemployment

Residence	Unemployment rate
Urban	43.60%
Rural	54.50%
Total	49.00%

Source: Households Survey, Riinvest, December 2002

In contrast, there are disparities in the unemployment rate across regions. More studies are necessary to explain the regional disparities in the unemployment rate. However, we can say that in some regions (such as in Mitrovica, see the table below), high unemployment is due to the concentration of heavy industries in these regions during the previous system.

Table 1.20: Regional unemployment

Nr.	Regions	Unemployment rate
1	Prishtina	42.50%
2	Prizreni	<b>53.90%</b>
3	Peja	43.50%
4	Mitrovica	<b>56.40%</b>
5	Gjilani	<b>55.00%</b>
6	Ferizaj	<b>51.70%</b>
7	Gjakova	33.30%
	Total	49.00%

Source: Households Survey, Riinvest, December 2002

<sup>18</sup> Boeri et al. (1998)

### I.3.4. Voluntary unemployment and inactivity<sup>19</sup>

The average wage (per month) in Kosova is estimated to be just above 200 Euros, being lower for female workers. As much as 68% of the unemployed would accept a salary lower than the estimated average salary - they would accept a salary of between 101 and 200 Euros. This is probably influenced by the limited opportunities to find jobs and the lack of social assistance. Though there is only a slight difference, it can be seen that female unemployed do accept lower salaries than their male counterparts. This is related to their level of education as well as their attitude towards accepting jobs that require working in shifts, manual labouring jobs, non time-flexible jobs etc. However, the level of the minimum salary acceptable is also related to the number of dependants of an unemployed person. The conclusion from this is that voluntary unemployment is not influencing the unemployment rate in Kosova.

Table 1.21: Minimum monthly acceptable salary

	Male	Female	Total
Up to 100	6.7%	9.2%	7.9%
101-200	65.7%	70.4%	68.1%
201-300	21.7%	16.8%	19.2%
301-400	3.4%	2.5%	3.0%
401-500	1.8%	0.6%	1.2%
501-1000	0.7%	0.5%	0.6%
Total	100.0%	100.0%	100.0%

Source: Households Survey, Riinvest, December 2002

The minimum wage is related to the level of education – the lower the level of education of the unemployed, the lower the minimum acceptable wage. The table below gives the average minimum acceptable wage by unemployed people according to their level of education.

Table 1.22: Minimum acceptable salary according to the level of education

Education	Average minimum acceptable wage
1. Without ed.	175
2. Primary	198
3. Secondary	201
4. High	275
Total	202

Source: Households Survey, Riinvest, December 2002

The minimum wage is likely to affect the inactivity rate as well. Riinvest LFS data shows that the inactivity rate is 42% (42% of working age persons are not active in the labour force), 59.4% female and 23.7% male. The inactivity rate should be considered carefully when deciding on the level of the minimum wage and policy-makers should bear this in mind. This, together with unemployment benefits, can attract inactive persons to enter the labour force and push up the unemployment rate, although, labour inflows from inactivity to activity may be towards employment as well (such as students etc.).

As one can expect, the main reason for inactivity (according to the Riinvest LFS data) is family duties. As the table below shows, it is mainly females who have to take care of children and the family. Surprisingly, other income sources do not have a great impact on the decision whether or not to stay inactive.

<sup>19</sup> Inactive persons are those who are of working age, not working and looking for job.

Table 1.23: Reasons for being inactive

	Cannot find a job	Not able to work	Seasonal Inactivity	Family Duties	Too young, too old	Remitt & Other income.	In school	Retired	Other	Don't know / No answer	Total
Male	21.1%	13.0%	0.7%	4.2%	8.6%	1.6%	38.0%	4.8%	1.8%	8.0%	100.0%
Female	13.9%	6.2%	0.2%	48.8%	8.4%	1.5%	12.7%	1.4%	2.7%	6.1%	100.0%
Total	15.8%	8.0%	0.3%	36.6%	8.4%	1.5%	19.7%	2.3%	2.5%	4.8%	100.0%

Source: Households Survey, Riinvest, December 2002

An interesting group of people are those who are inactive due to the fact that they cannot find a job. These are mainly long-term unemployed who have withdrawn from the labour force (nearly 50% of them have not have a job for as long as 12 months). They may also be described as desperate unemployed. They constitute a group of people that is very likely to enter the labour force as the chances for employment increase.

Employment policies should target these people since they are human resources that remain idle. Moreover, they can be seen as a burden on society and can increase the dependency ratio (the number of working age persons that are not working, either unemployed or inactive, per one employed person). Based on survey data, this ratio in Kosova is 2.4 – meaning that there are 2.4 persons not working per one employed person. But the ratio of pensioners to employed persons in Kosova is estimated to be 0.21, which is very favourable.

Another interesting group of inactive persons are those who are inactive because of school attendance. Based on other surveys that Riinvest has carried out, it can be said that formal schooling is not offering the appropriate skills that would be compatible with the skills required by the labour market. Therefore, unless graduates go through a training programme, their chance for immediate employment after school is low. A considerable number of these people enter the labour force each year.

To conclude, there are three groups of inactive persons who may enter the labour force easily as the chances for employment increase: those who say that they cannot find a job, those who are inactive due to family duties and those attending school. From another point of view these three groups are human resources that are lost.

### I.3.5. Job searching and Employment Services

The role of Employment Offices is important in the sense that they can fill vacancies with the most appropriate workers and in the fastest way, therefore having a considerable effect on the unemployment rate. This is because Employment Offices have long lists of the unemployed. According to the data from the Central Employment Office, the number of unemployed people registered at Employment Offices throughout Kosova in November 2002 was 255,978. However, the Riinvest LFS shows that only 58.4% of unemployed persons are registered at Employment Offices.

It is worth examining the reasons why 42% of unemployed people are not registered. This would reveal some insights into the role Employment Offices are playing. Survey data shows that the main reason for not registering at the Employment Offices is that unemployed people do not think that they can find jobs through them. This is in line with our expectations and from the data for jobs placement (number of jobs found through Employment Offices). Only some 4,000 jobs have been found through Employment Offices.

Surprisingly, few people mention the lack of unemployment benefits as a reason for not being registered at Employment Offices. This is in contrast to what officials working in these offices say. It seems that the main reason for being registered is to be eligible to receive social assistance.

Table 1.24: Reasons for not being registered at the Employment Offices

	Male	Female	Total
I don't think I could find job through EO	61.0%	49.2%	53.8%
I have no time	5.8%	13.2%	10.3%
They do not offer benefits	2.3%	2.5%	2.4%
Other	16.8%	20.8%	19.2%
Don't know	14.2%	14.2%	14.2%
Total	100.0%	100.0%	100.0%

Source: Households Survey, Riinvest, December 2002

As a consequence of non-registration, facilities that the Employment Offices provide (information on vacancies etc.) are not being used by the unemployed while searching for jobs. As the table below shows, only 28% of unemployed people search for jobs through Employment Offices. This data is also in line with the Riinvest SME Survey data. The latter shows that most of the hiring in private firms takes place through family and friends. In terms of time spent in job searching; the survey data shows that as much as 90% of unemployed people spend up to 15 hours per week searching for a job.

Table 1.25: Job searching procedure

Employment office	Newspapers	In firms	Agency	Friends and Family	Other	Don't know	Total
Male	27.5%	20.3%	17.1%	9.5%	21.1%	3.9%	0.5% 100.0%
Female	29.6%	31.7%	6.1%	9.6%	20.6%	2.4%	0.0% 100.0%
Total	28.4%	25.4%	12.2%	9.6%	20.9%	3.2%	0.3% 100.0%

Source: Households Survey, Riinvest, December 2002

Most of the businesses in Kosova are micro and small businesses and they hire employees mainly from relatives and friends. Maybe this is why unemployed people often use these channels in searching for jobs.

## I. 4 LABOUR MARKET INSTITUTIONS AND POLICIES

### 1.4.1 Introduction

The labour market in Kosova is still taking shape in terms of institutions and the policies relating to it. The legal framework has recently been completed and so far it appears to be very basic. While it is true that a number of practical issues are not covered by the current legislation, its simplicity, from the point of view of a transition economy, may be argued as having a positive impact with respect to the labour market. Probably due to its simplicity, in general the labour law is well understood in Kosova and applied by both employers and employees.<sup>20</sup>

With respect to employment policies, the Ministry of Labour and Social Welfare (MLSW) has a key role. One of the priorities of this Ministry is the establishment of a proper system of employment services. Besides the Ministry, several other partners are involved in offering services for the unemployed. In addition to a system of regional Employment Offices, a number of Vocational Centres have been established in Kosova. Despite the fact that so far these centres have been opened and operated through donors' support,<sup>21</sup> the MLSW supervises the activities of these Vocational Centres through the Department of Labour and Employment within the Ministry.

### 1.4.2 Legal Framework

Nowadays Kosova is facing a complex situation, building an entire institutional system, not just with regard to the labour market. Though considerable progress has been achieved, much remains to be done. So far only two regulations with an impact on the labour market have been issued: the Pension Law<sup>22</sup> and the Labour Law. The law on Social Assistance and the Disability Law are other two draft laws that are under that under discussion. Little can be said unless they are available for public. However, their impact on the labour force participation is to be considered with a dose of caution, especially for the former. The level of the social assistance is likely to have an impact on the decision of people whether to enter the labour force. Below we consider the Labour Law and its enforcement mechanisms.

After the war, the formal regulation of employment relationships was accomplished through the enactment of the Essential Labour Law.<sup>23</sup> In fact, the current labour law of Kosova is mainly a basic document that provides for well known standards such as non-discrimination, prohibition of compulsory labour, working hours not exceeding 40 hours per week, minimum age for work, the form of the employment contract, termination of employment contract and some general rules concerning the social obligations of an enterprise towards its employees. However, the law does not provide for detailed rules with respect to practical issues.

In countries such as Albania, which have totally reformed their labour legislation after the 1990s in accordance with westerns standards, the labour code is a much more detailed document than the Kosovar model. Another way to deal with the areas not covered by the existing Labour Law of Kosova, is to enact specific laws that would control labour protection, collective agreements and

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<sup>20</sup> This opinion is supported by Mr. Heset Mazrekaj, Head of the Directorate of Labour Inspectorate.

<sup>21</sup> Such as AER, ILO and AGF

<sup>22</sup> Regulation no 2001/27, "On Pensions" in Kosova, it is well thought out and designed in accordance with the economic and budgetary capacities of Kosova. It is built on three pillars. The first pillar covers all people aged 65 and over, regardless of whether they have previously paid any contribution. The second pillar is based on the compulsory contribution made by all those working, while contributions for the third pillar are voluntary. Up to now some 90,000 people are receiving basic pensions. Although the amount they get is very low, it shows that the budget of Kosova is well consolidated.

<sup>23</sup> Regulation no 2001/27 on 'Labour Law' in Kosova

trade union activities. Thus, it is clear that the labour legislation in Kosova is still in its initial phase and there is great need for further improvements and amendments.<sup>24</sup>

However, there are certain rules in the current Labour Law that may be argued as being very positive from the point of view of the situation of the Kosova labour market, where unemployment is high and most of the jobs being created are in small and medium-sized enterprises. For example, the lack of special protection for trade union members against layoffs, the relatively low payment for overtime and the high minimum number of workers to be laid off (50) in order to treat such a layoff as mass redundancy, makes the mass redundancy regulation superfluous for most small and medium-sized enterprises in Kosova. From the point of view of a transition economy, law simplicity may also be argued as a positive characteristic. Even a basically educated employer and employee are probably able to understand the meaning of selected articles.

Nonetheless, probably due to its temporary and general character, the law is not free of drawbacks. For example, the law defines the duration of maternity leave as 12 weeks with the employer obliged to pay for such leave. The employer pays for the sick leave of employees but only if the illness is the result of an accident during work or is work-related. Probably both of these solutions are the result of the lack of suitable Social Funds that could cover at least part of costs of maternity and sick leave.

While it should be emphasized that in general the Labour Law has to be assessed positively, especially from the point of view of its simplicity, there are in addition some claims that the existing Labour Law is not having a positive impact on labour relations. According to officials serving at Employment Offices, firms should be forced, by law, to report their vacancies at Employment Offices. Bad working conditions might be another reason why many vacancies are left unfilled, even though many unemployed people are looking for a job. Moreover, while many employees are working in poor conditions, their employers are not being punished due to the lack of labour inspectors.

Some of the concerns raised above deal with the efficiency of the “law enforcement mechanisms,” rather than with the law itself. The Directorate of Labour Inspectorate<sup>25</sup> is the body in charge of supervising and controlling the application of the labour regulations by private businesses, while it has no controlling power over subjects financed by the budget of Kosova, or non-profit organisations.

Between February and September 2002, labour inspectors conducted 3,627 regular inspections, 1,009 inspection on requests (unusual inspections), and 249 in cooperation with other inspection bodies operating in the areas of health, construction and trade. From the total number (4,882) of inspections, in only 331 cases (6.7% of the total number) have legal violations been observed. These violations have mainly related to working conditions, employees’ health protection and protection of the work place. So far, labour inspectors have not imposed penalties, but have been focused more on guiding the parties with regard to the legal aspects of the employment relationship. Also, the labour inspectors have not imposed any fines up to now, despite the fact that they have such power, provided by law.

In December 2002, the Assembly of Kosova passed the Law on the Labour Inspectorate, which will enter into force after being signed by the Special Representative of the Secretary General

<sup>24</sup> The Ministry of Labour and Social Welfare is recently taking into consideration some amendments to the existing Labour Law.

<sup>25</sup> The Directorate of Labour Inspectorate was established in 2002 in accordance with the administrative guideline 2001/21. It is composed of 38 labour inspectors, who supervise 26 municipalities nationwide, including Leposaviqin, Zveqanin, Shterpçen and Northern Mitrovica, while inspectors are soon to be appointed to the municipalities of Obiliqi, Klina and Novo Bërdë.

(SRSG). The officials of the Directorate of Labour Inspectorate expressed certain concerns regarding the newly enacted law. According to them the law does not comply with expected standards and violates some principals of international law. It is a pity to observe that while there are attempts to pass new legislation in this area, structures such as the Labour Inspectorate, that are most affected by the new law, strongly oppose its major developments.<sup>26</sup> While this is probably a result of the lack of institutional cooperation during the drafting stage, its consequences become irreparable once the law enters into force.

#### 1.4.3. The MLSW and Employment Offices

The MLSW is organised into two main departments: the Department of Labour and Employment and the Department of Social Welfare. The Principal International Officer works closely with the Minister of the MLSW. Also, each of the two main departments is headed by an International Officer, who is assisted by a Kosovar partner, as deputy head in each respective department.

The Department of Labour and Employment consists of three divisions: *Employment, Vocational Training, and Labour Law Regulations*. The Employment Division supervises and coordinates the system of Employment Offices. There are one central, 6 regional and 22 municipal Employment Offices (EO) in Kosova. The seven Regional Employment Offices have been established in Prishtina, Prizren, Peja, Mitrovica, Gjilan and Ferizaj, each of them having subordinate branches in smaller communities. Their activities are firstly co-ordinated by the Central Employment Office in Prishtina, which is itself supervised by the Employment Division within the Ministry of Labour and Social Welfare.<sup>27</sup>

The Regional Employment Offices are run by a Director, project co-ordinators and consultants (trainers). Apart from a lack of funds for the proper foundation for these offices, the lack of trained and experienced staff imposes constraints in offering better services to unemployed people. There are only 200 officials in total working in employment offices nationwide, whilst the number of registered unemployed, as at November 2002, is 255,978<sup>28</sup>. As can be seen, the staff-client ratio is extremely unfavourable – it is approximately 1:1,270. Moreover, not all the officials serving at these offices have undergone training programmes, which constitutes another constraint for the proper functioning of these offices.

*Unemployment registration.* The main role of the Regional Employment Offices is the registration of unemployed people. The high number of registered people per one employment officer narrows the range of services that can be offered by these offices in Kosovo. They lack the capacity to fully track unemployed people, and the number of registered unemployed is not updated after someone manages to find a job.

*No employment benefits.* The employment offices are not offering unemployment benefits. This fact is thought to have had a direct impact on the number of registered unemployed. However, the Riinvest LFS shows that the lack of benefits for unemployed people is not affecting the decision to register at the EO.

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<sup>26</sup> For example, the current law, in contrast to existing regulations, provides that the labour inspectors are to be appointed by the respective municipalities. According to Mr. Mazrekaj, placing labour inspectors within local government, instead of central government, would create confusion and would seriously disorganise the labour inspectorate.

<sup>27</sup> There is a weekly-based meeting of the heads of the Regional Employment Offices, where they report their activities.

<sup>28</sup> Data is from a Press Release of the MLSW, dated 15 December, 2002.

### Box 1: REGIONAL EMPLOYMENT OFFICE – GJILAN

This office covers the Municipality of Gjilan, Vitia and Dardana (formerly Kamenica). This region (Gjilan, Vitia and Dardana) has 250,000 inhabitants. The Office is run by the Director (Mr. Hafiz Leka), project co-ordinators and consultants (trainers). The latter offer advice to unemployed people and also provide training in selected fields.

The Office employs 24 people and **plays an intermediary role** between employers and unemployed people. Though only a small proportion of vacancies are reported by employers to this office, the office recommends appropriate workers. Mr. Leka claims that most vacancies are filled by unemployed people through contact with family and friends, which is also supported by Riinvest SME surveys.

**Another role of this Office is to register unemployed people.** Because no unemployment benefits are available, the number of registered unemployed is lower than it would be otherwise. Though the number of unemployed people is thought to be around 100,000, only 24,000 of them are registered at the Employment Office. Of those registered, 46% are female, while 62% of all unemployed have only basic qualifications. 52% of registered unemployed are between 25-39 years old. About 62% of unemployed people are long-term unemployed, which shows that long-term unemployment is a real concern for this region. The employment to population ratio is 8%.

The lack of data on the labour market is imposing a real constraint on research analysis. In order to gain some insights into the extent of unemployment in this region, a labour market survey has been undertaken. There are two reasons why this survey is being conducted: to obtain some ideas for the unemployment pool and to identify the training needs of the unemployed. Training needs are identified based on the request of employers.

Due to lack of finance, the training programmes offered are very limited. In order to help unemployed people, this Office (together with the Regional Employment Office in Ferizaj) is implementing a project for reforestation. Some 120 unemployed people have been engaged in this project in 2002, though this was short-term employment (only three months).

*Mediation.* Regional Employment Offices also try to play an intermediary role between employers and the unemployed by proposing appropriate workers for vacancies. However, employers are reporting only a small proportion of vacancies to the Employment Offices, and most of the vacancies are being filled by unemployed people through contact from family and friends. This statement is also supported by Riinvest SME surveys (1999, 2000, 2001 and 2002), where most of the hiring in private firms takes place through the recommendations of family and friends. In contrast to that, most of the hiring in SOEs and public enterprises is done through the mediation of the Employment Offices.

Table 1.26: The role of employment offices in intermediation and training, December 2002

	December 2002	Participation (%)
I. Registered Unemployed		
- Females	257,505	100.0
- Males	114,607	44.5
	142,898	55.5
II. Level of education:		
- Unqualified	145,759	56.6
- Secondary education	68,126	26.4
- Other qualifications	43,620	16.9
III. Age group:		
(i) 16-39 years old	180,139	69.9
(ii) 40 + years old	77,366	30.4
IV. Employed through employment offices	3,730	1.4

Source: Ministry of Labour and Social Welfare, December 2002

*Information dissemination.* The modern approach towards this issue is that the unemployment rate is, to a great extent, a function of the lack of information in both directions – employers cannot find the right workers for their vacancies and workers are not informed of the existence of such vacancies, which they would otherwise accept. In this respect information dissemination plays an important role in the process of filling vacancies. In order to facilitate intermediation, for example, the Regional Employment Office in Ferizaj has published some leaflets containing information on vacancies, the application procedure, and necessary training to meet the requirements of the

vacancies.<sup>29</sup> In an attempt to identify training needs, the officials of this Regional Employment Office conduct regular visits to private firms, asking them for the profiles of the workers they need. Another good example is the case of the Regional Employment Office in Prizren. In order to identify employers' needs for labour, the Regional Employment Office in Prizren has conducted a survey with 500 employers in this region, identifying the most wanted professions and focusing their training programmes to enable the unemployed to enter these professions.

#### 1.4.4 Vocational Training Centres

Training of unemployed people is mainly provided by Vocational Centres. There are 8 Vocational Centres operating in Kosova,<sup>30</sup> 4 financed by the Italian Government, through ILO<sup>31</sup> and 4 by the Danish Government. The officials of the Ministry acknowledge good co-operation between their institution and other partners that provide training services for unemployed people.

The Vocational Training Centres are also under the umbrella of the Ministry of Labour and Social Welfare, specifically and directly under the control of the Vocational Training Division within the Ministry. They share information closely and cooperate with the Employment Offices. The main tasks of the Vocational Centres are to identify training needs amongst unemployed people and provide training for small-scale enterprises. In order to be eligible for the training programmes offered by these centres, people should firstly be registered as unemployed at the Employment Offices.

Table 1.27: Enrolment of jobseekers in training programmes

<b>I.</b> No of registered jobseekers in training programmes for the period VI-XII, 2002	1,658	
<b>II.</b> Trained jobseekers during the period VI-XII, 2002:	1,051	100.0
- Females	674	64.1
- Unqualified and partly qualified	283	26.9
- Qualified	126	12.0
- Secondary education	600	57.1
- High education	12	0.1
- University degree	29	2.7
<b>IV.</b> Trained jobseekers classified under age group:-	1,051	100.0
(i) 16-24,	646	61.5
(ii) 25-39,	323	31.0
(iii) 40-54,	76	7.3
(iv) 55+	6	0.2
<b>V.</b> Training programme duration:		
(i) less than 1 month	443	42.0
(ii) 1-3 months,	226	21.4
(iii) 3-6	324	30.8
(iv) 6-12	61	5.8
(v) 12 +	0	-

Source: Ministry of Labour and Social Welfare, December 2002

Each Vocational Centre is managed by the respective management board, which makes all decisions with regard to the identification of training needs, courses, curriculum and trainers. The course attendants are selected from amongst the unemployed job seekers. The courses last up to 3

<sup>29</sup> This project is supported by the local office of the International Organization of Migration (IOM).

<sup>30</sup> Vocational Centres are established in Gjakova, Peja, Ferizaj, Gjilan, Mitrovica South, Mitrovica North, and Prizren

<sup>31</sup> "Skills and Development for Reconstruction and Recovery of Kosovo Project" is the ILO project in cooperation with the MLSW. This is a four-year-project launched in 2001. Under this project, 4 training centers are set up in Prishtina, Gjakova, Peja and Prizren. The first part of the project dealt mainly with establishing the training centres, identifying training needs, and prospective trainers. Up to October 2002, as Mr. Lars Iggensell, Chief and Technical Advisor of the project explained, 147 persons have been trained under this programme. Approximately 33 persons out of 147 have been able to find a job after being trained.

months and classes are held in accordance with individual needs. The Vocational Centre is headed by the leader of the project, who so far has been a foreign official, appointed by donors.

#### 1.4.5 Social policies

After the establishment of the Kosovar Government, the MLSW started formulating and building up policies on social protection, despite the unfavourable economic and social situation in the country. The law on Social Assistance is under discussion and it is expected to be enacted soon. Since the start, the MLSW has had to face a number of social demands from different stakeholders, such as employees, the independent trade unions of Kosova, pensioners and other at-risk social categories. Despite the lack of necessary social funds, the MLSW is offering limited social assistance and protection.

The following instruments of social policy were implemented in Kosova in 2002:

- (i) Pension payments for 90,000 pensioners
- (ii) Social assistance for 51,500 families
- (iii) Social assistance for 3,700 members of war invalids' families, war invalids themselves and other invalids.

According to MLSW data some 51,500 families received social benefits in 2002, 60 Euros per family. The Riinvest LFS data shows that 14.6% of the total number of families is receiving social benefits. If we want to show the number of people living on social assistance, then we can simply multiply the number of families that are receiving social assistance (51,500) with the average size of the family (6.83), to give us 351,745 people. Given that families with a large number of children and aged persons are eligible for social assistance, there are grounds to believe that most of these people are of young age and/or elderly.

With regard to the Consolidated Budget of Kosova for the year 2003, the MLSW has been assigned the following fund (and structure of distribution) to put into force the social policy for the labour market.

Table 1.28: Consolidated budget of Kosova its destinations in terms of LMPs (in mil.Euro)

The Consolidated Budget of Kosova	489.0	100.0
The budget assigned to the MLSW	82.6	17.0
<b>Social Welfare Pensions</b>	<b>77.7</b>	<b>16.0</b>
-Pension payments	45.3	9.2
-Social assistance	28.8	6.0
-Others	3.6	0.7
<b>Labour and employment issues</b>	<b>3.8</b>	<b>0.8</b>
<b>Labour inspection and central government</b>	<b>4.9</b>	<b>1.0</b>

Source: The Consolidated Budget of Kosova for the year 2003

The Consolidated Budget of Kosova is insufficient to enable it to face all the needs of social development in the country. The share of the MLSW budget in the total budget of the government is 17.0%, the pension payments and social assistance 15.25%, while the assigned funds for employment count for only 0.8%. In the light of the lack of budget funds, the Kosovar Government is unable to build and implement active labour market policies. These modest funds would be mainly used for vocational programmes, improving the labour legislation and covering the expenses of the Employment Offices with regard to employment intermediation.

Undoubtedly, it is very important to build and implement active labour market policies. However, taking into account the budget restrictions of the MLSW, it seems impossible to secure governmental intervention to regulate the labour market in the current phase. The current

circumstances enable the implementation of passive labour market policies, including the activities of Employment Offices, the implementation of training programmes and further developments in the legislation. However, in the current situation the Kosovar Government cannot apply active policies to reduce unemployment through schemes that offer unemployment benefits.

#### **1.4.6 Tripartite Dialogue**

The MLSW has been very much engaged in promoting social dialogue in Kosova, which is centred on the so-called Tripartite Advisory Council, the first meeting of which took place in November 2002. The representatives of the Central Fiscal Authority and the Ministry of Labour and Social Welfare are the participants of the council representing the authorities. The Kosova Chamber of Commerce represents employers and the Confederation of Independent Trade Unions the employees' side. In general the aim of the council is to discuss all issues relating to the situation in the labour market such as: legal activities in the fields of social policy and labour policy, current social assistance activities and actions to combat unemployment, and also the creation of the countrywide collective agreement. Thus far, in Kosova only one collective agreement has been concluded, with the Kosova Electric Corporation (KEK).

For the time being, only one Trade Union exists in Kosova, which has branches based on economic sectors. The trade union representatives declare their support for the market reforms in the country. However, some details of their views might give rise to serious doubts. According to the trade unions the duration of maternity leave is one of the priorities that will have to be changed - it should be increased to at least 6 months. Also a minimum wage of 150 Euros should be introduced, compared to the current de facto minimum of 95 Euros, which is the minimum wage in the public sector. Trade unions would also support the idea of introducing a maximum wage, to be set at 300 percent of the minimum wage in a given enterprise. Fulfilling these demands would probably only help to preserve high unemployment and further develop shadow employment, and additionally would result in various illegal forms of payment for high ranking professionals. It suggests that understanding of the functioning of a market economy and especially of the economics of transition is still insufficient amongst the representatives of the Kosova trade union.

To conclude, in the light of the government's budget constraints, and taking into account the fact that the Ministry of Labour and Social Welfare is limited in its capacity and experience, the picture of labour market policies and institutions seems encouraging. Senior officials at the MLSW claim that the unresolved issue of the political status of Kosova impedes them from entering into international agreements with foreign governments which would provide employment opportunities abroad for Kosovars. However, in spite of the above claims, it should once more be emphasised that a number of passive and active labour market policies are yet to be adopted.

Given the situation, an overall employment strategy that would reduce high unemployment should be the top priority of the Government of Kosova in general, and of the Ministry of Labour and Social Welfare in particular. These policies should assist unemployed people to find work. The programmes to be launched by the Ministry of Labour and Social Welfare and by other relevant institutions should target high unemployment and especially the most disadvantaged groups, i.e. young people, female workers, those with low education, etc.

## I.5. EDUCATION AND TRAINING PROGRAMMES AND THE LABOUR MARKET<sup>32</sup>

The education system in Kosova is undergoing reform involving every level of the system. Reforms are being undertaken in a number of key areas, with various international bodies acting as lead agents. Apart from the curricula, the reform has involved the organisation of education and the institutions. The new 5+4+3 educational structure (9 years of compulsory schooling plus three years of upper secondary education) is being rapidly implemented.

Compulsory schooling is from the age of 6 or 7 to 14, when primary school is completed (called lower secondary under the system introduced in 2002/3, in which the period of compulsory education is extended to 9 years). Secondary education (upper secondary) is from the age of 15 to 17 or 18, with general, 3 to 4 year vocational schools and art and design schools. At primary level there are around 36,000 pupils in each grade, although there are over 47,000 in Grade 1. The total numbers and proportion of females decline in the later grades. In 2000/2001 there were nearly 27,000 students in the first year of secondary school (over 60% males) with the numbers declining to just over 14,000 in the final year of secondary school. In total there were just over 20,000 students enrolled at the University of Prishtina in 2000/2001. Little is known about the role and market share of private educational institutions in Kosova. There is no close relationship with the demand side of the labour market and the reform of the education system.

This initial stage of institution building within the reform of the education system is gradually coming to an end. In the next stage, the emphasis will be on the evaluation of those institutions, such as measuring student and trainee attainment levels, and/or their success in entering employment.

In 2001 government expenditure on education in Kosova was approximately 3.8% of GDP, which is comparable to that found in low and middle-income countries (IMF: *Kosovo: Institutions and Policies for Reconstruction and Growth*, 2002) but below the 5% average of EU countries. On the other side, 16% of the Kosova Consolidated Budget in 2001 and 2002 is spent on education, whereas for 2003 around 22% of the total budget is attributed to the expenditure on education. Yet the SME survey data shows that the education system is not producing graduates with appropriate skills. Therefore, additional reforms are necessary and these reforms should be based on the demands of the labour market.

### Box 2: Optimism of new economists

In the preparation of this report, short interviews were conducted with 65 students from the final year of the Management Department of the Faculty of Economics in Prishtina. Only 23% of them expect to complete their studies on time (June –July 2003) but 72 % of others intend to finish by December 2003. There is a feeling of optimism about employment, with more than 60% believing they will find a job within 12 months of completing their studies. Private businesses (29%) and the financial sector (29%) are seen as promising avenues for employment. Only 14% would like to start their own businesses, 12% to be employed abroad, 3% expect to be employed in public administration, while only 3% in public enterprises. More than two-thirds do not feel fully prepared for their anticipated jobs. The average minimum expected salary is 386 Euros. More than half of the students (58%) said that they would be registering in Employment Offices in order to find a job.

<sup>32</sup> This section is based upon the report that Professor Nick Adnett prepared for Riinvest while spending a week as a consultant to the Riinvest staff, analysing the education system in Kosova and its reforms in terms of labour market requirements, within the project Labour Market and Unemployment in Kosova. Professor Adnett is Professor of Economics, Institute for Education Policy Research, Staffordshire University, UK.

Little is known about the extent of on-the-job training. The Riinvest 2001 SME Development in Kosova Report details a significant demand amongst businesses for increased training provision, with over 80% of businesses willing to pay for such training. Whilst nearly 80 per cent identified a training need, less than a quarter of employees and managers had undertaken training in the previous year. Management training seems to be particularly neglected, with over 70 per cent of owners and managers reporting no training undertaken in the previous twelve months. Respondents identified IT and financial management as key areas and indicated a preference for intensive weekend courses.

**Box 3: Riinvest SME Survey 2002 findings on education performance**

The supply side of the labour market in Kosova is still not able to offer the right skills as required by firms. This statement is supported by the Riinvest SME Survey 2002. Amongst others, the main reason for this is a lack of practical skills.

Table 1.29: To what extend does the labour market fulfils your needs for qualified staff

Completely	40%
Partially	48%
Most of the time not	7%
<u>Don't know</u>	5%

Source: Riinvest SME Survey 2002

Moreover, the education system is not preparing the right people for the labour market. In the Riinvest SME Survey most firms answered that they consider the skills possessed by new graduates to be below average. Amongst others, they suggest that additional training for new graduates is necessary in the following fields: marketing, finance, accounting, information systems etc. This training should be coordinated by the Vocational Training Centres, operating in Kosova under the umbrella of the Ministry of Labour and Social Welfare.

Table 1.30: How do you evaluate the skills by the graduates coming from the secondary schools

Very good	25%
Average	47%
Not satisfied	6%
<u>Na</u>	22%

Source: Riinvest SME Survey 2002

On the other hand, there seems to be an improvement in the hiring policy, since the criteria for hiring used by firms is reported to be the skills of the applicants (qualifications and skills by the applicants account for 47% of hiring by private businesses).

Table 1.31: Criteria used by private businesses in hiring new employees

Qualifications	25%
Social situation	47%
Family relationships	6%
<u>Skills by the applicant</u>	22%

Source: Riinvest SME Survey 2002

The University of Prishtina is beginning to include voluntary elements of career education and vocational guidance through general elective modules. The University and individual Faculties need to be encouraged to further develop generic and job-searching skills amongst their students and strengthen their links with employer groups. They may also wish to develop links with the vocational guidance units being established in the Regional Employment Offices as a means of developing further their capabilities in this area.<sup>33</sup>

<sup>33</sup> See previous footnote.

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Whilst several of the eight training centres appear to be making promising contributions to addressing the limited domestic skills shortage, a further significant expansion of capacity appears unlikely. However, further improvements in labour market intelligence and the co-ordination of regional employment offices and training centres, together with the greater input of local employers, both as providers of training and employers of their output, should increase the effectiveness of these key resources. In the case of greater employer involvement, this also offers the prospect of improved trust and understanding with Employment Offices, with resulting improvements in vacancy notification and, as a consequence, increases in the registration rate of unemployed job seekers. Mass unemployment and the limited training capacity have together created a huge excess demand for training. Continued experimentation with free transport and subsistence allowances may enable greater take-up of training amongst rural job seekers. As yet, vocational training in Kosova does not appear to be contributing significantly to the reduction of gender inequalities in the labour market.

## II. TRENDS AND EXPERIENCES IN TRANSITION COUNTRIES AND THE EU

This section gives a brief overview of the labour market in transition countries and in the European Union (EU). This is important in terms of paving the way for the future integration of the labour market in Kosova with the EU labour market. The section does not attempt to give a complete picture of the labour market in these countries; it aims to discuss it in terms of its relevance to labour market developments in Kosova.

### II.1. LABOUR MARKET TRANSFORMATION AND UNEMPLOYMENT IN TRANSITION COUNTRIES

#### Labour reallocation

In the early 1990s, profound changes occurred in the countries of Central and Eastern Europe. During the transition both supply and demand for labour were affected. Sectoral reallocation of labour was evident as a result of the shrinkage of some sectors (heavy industry) and the development of others (services and light manufacturing). Given these adjustments, full employment was no longer sustainable. Many people withdrew from the labour force, which had a great impact on participation and employment rates.<sup>34</sup> However, labour flows during transition are more complex than the stylised two sectoral reallocation of labour from state to private sector, with unemployment as a buffer zone.<sup>35</sup> All countries presented in the table below experienced a considerable shrinkage of jobs in manufacturing and, with some exceptions, new job creation in service sectors. On balance, the difference between job creation and job destruction was negative for all countries.

Table 2.1: Job destruction (creation) in some transition countries during 1989/92 (in thousands)

Country:	Czech Rep.	Hungary	Poland	Romania	Slovakia
Period:	1989-92	1989-91	1989-92	1989-92	1989-92
Agriculture	-204	-160	-718	+289	-80
Mining	-73	-27	-119	+13	-1
Manufacture	-257	-97	-516	-748	-178
Power and water	+4	-14	-40	+31	-2
Construction	+6	-35	-255	-127	-70
Transport and comm.	+5	+15	-254	-115	-2
Trade and catering	+2	+95	+167	+205	-38
Financial services	+6	+18	+27	+27	+8
Other services	-78	-62	-232	+10	-12
Health and education	+0	-23	-44	+7	+4
Public administration	+1	-57	+34	+25	+36
Job destruction	-612	-475	-2178	-990	-383
Job creation	24	128	228	607	48
Net job destruction	-588	-347	-1950	-383	-335

Source: Boeri *et al* (1998), except three last rows (they are calculated from the data above)

In addition, a common change in the labour market in transition countries is the increase of employment in the tertiary sector of the economy and the shrinkage of the primary and secondary sectors. In 1997, more than half of the work force was engaged in the tertiary sector. Exceptions are Bulgaria and Poland where, after the transition period, the labour force moved toward agriculture, which was characterised by low productivity.

<sup>34</sup> Blanchard 1997; Boeri *et al.* 1998; Svejnar, 1999 etc.

<sup>35</sup> More on this see: Aghion and Blanchard, 1994; Boeri, 1994; Gavin, 1996

## Unemployment and its characteristics

The transition to a market economy has seen the rapid emergence of double-digit unemployment rates, despite significant reductions in labour force participation, competitive devaluation of currencies, reductions in formerly generous unemployment benefits, and the introduction of active labour market policies.

Some researchers<sup>36</sup> argue that unemployment is not just a by-product; it is necessary for the transformation. To support this statement, the following reasons are given:

- (i) with unemployment, bargaining power is biased toward employers, indeed, unemployment will provide a worker-disciplining device;
- (ii) unemployment may be necessary to control the growth of real wages; and
- (iii) unemployment is necessary to allow the emergence of the private sector.

The table below provides the unemployment rates for transition countries (in CE, SEE and the Baltic countries). During most of the 1990s the unemployment rate in SEE countries was generally higher compared to CE and the Baltic countries. The reason might be that most SEE countries experienced some form of conflict, which delayed the process of macroeconomic reform.

Table 2.2: Unemployment rate in transition countries (2001)

Countries	2001	Change in employment, 1990(92)-2000
South East Europe countries (average)	19.6%	-28.5%
The Baltic countries (average) *	11.4%	-21.7%
Central Europe (average)	12.6%	-13.2%

Source: 1990-98 OECD (2000); 1999-2000 KILM, ILO (2002); 2001 WIIW, Vienna (2002). \* Data for 2000

The most vulnerable group to become unemployed are those who possess only a low level of education. The unemployment rate for older workers is lower than that for younger workers, because many older workers took early retirement and, therefore, withdrew from the labour force. Besides cross-country differences, there are also regional disparities in unemployment. Urban areas usually have lower unemployment than rural areas.

The most troubling aspect of unemployment in transition countries is long-term unemployment (being unemployed for 12 months and longer). Its share in the total unemployment of 1999 was, on average, 40 per cent higher than in most industrialised countries. The most disadvantaged group of workers (those with least human capital) make up the long-term unemployed, such as the low skilled, the elderly and the young, those with health problems etc.

The unemployment rate for young workers is generally high compared to other groups. In most transition economies, unemployment for youths below the age of 25 is twice as high as, or even higher than, the national average.

## Policy implications

Designing an appropriate policy to cope with high unemployment is the major aim of governments in all transition countries. Such policies were thought to be necessary in order to gain popular support for the restructuring of enterprises. Svejnar (1999) claims that governments in transition countries have to find a balance between two issues: (i) how to reduce market interventions and introduce market incentives; and (ii) how to provide an adequate social safety net that ensures popular support for transition.

Most countries at the very beginning of the reform process applied the policy of relatively high minimum wages and quite generous unemployment and social assistance systems. High

<sup>36</sup> Burda, 1993; Nesporova, 1999.

unemployment and substantial social benefits decrease the motivation of the unemployed to find a job. The minimum wages were set at levels similar to those observed in OECD countries, 40-50 percent of the average wage (Boeri, Terrel 2001). Afterwards, mainly due to high inflation and the policy of not altering the nominal minimum wage levels; they fell to about 30 percent of the average wage. As far as unemployment benefits are concerned, in 1992, mainly due to fiscal reasons, the benefits system was reformed, both by lowering the replacement rates<sup>37</sup> limiting the maximum duration period and tightening the eligibility requirements. The table below presents the main characteristics of the unemployment benefits systems in selected countries of Central Europe before and after the 1992 reforms.

Table 2.3: Some indicators for the labour market policies in some transition countries

Country	Maximum duration (months)	Benefit Minima (% of minimum wage)	Benefit Maxima (% of minimum wage)	Gross Replacement rates (a)			Coverage rate (b)
				First 3 months	First Year	Second Year	
<b>Bulgaria</b>							
before	12	100	none	93	91	0	52
after	12	90	140	60	60	0	33
<b>Czech Republic</b>							
before	12	none	none	65	58	0	72
after	6	none	150	60	30	0	48
<b>Hungary</b>							
before	24	100	none	75	59	34	80
after	12	70	150 (c)	58	51	0	40
<b>Poland</b>							
before	open ended	100	average wage	70	53	40	75
after	12	none (e)	none	45	45	0	55
<b>Slovak Republic</b>							
before	12	none	none	65	58	0	82
after (d)	6	none	150	60	30	0	27

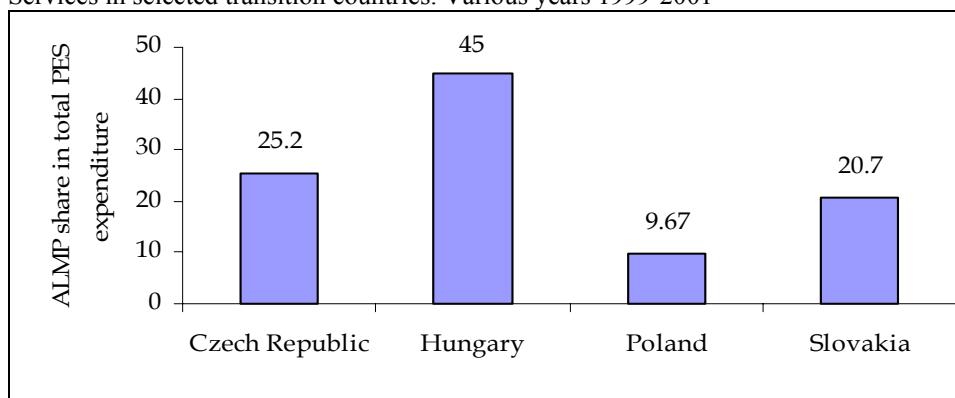
- a. Average gross benefit income in unemployment as a percentage of gross wage in the last job.
- b. Unemployment benefit recipients as % of total number of unemployed
- c. After the reform in Hungary the maximum and minimum benefits are not expressed as the percentage of minimum wage. These figures refer to the year 1995
- d. In Slovakia, since 1995 the reforms have been partially reversed. For example the maximum duration was increased again to 12 months.
- e. In Poland the benefit is generally flat, there are 3 rates: the basic one, 120 percent of the basic for workers with a work history of longer than 20 years and 80 percent of the basic for those with less than 5 years work experience.

Source: Walewski, Mateusz: The review of the labour market policies in transition economies; Paper prepared for RIINVEST, December 2002

In the second half of the 1990s, active labour market policies (ALMP) were introduced. Amongst these policies are job creation schemes (where the government engages in activities and even subsidises firms to hire new labour) and labour market training measures (providing training for the unemployed). Even though it was thought that unemployment would be reduced due to the introduction to these policies, the financial capabilities of transition countries reduced the effect of these policies.

<sup>37</sup> Replacement rate is the percentage of the last average wage covered by a benefit.

Graph 2.1: Expenditure for Active Labour Market Policies as a share in total expenditure of Public Employment Services in selected transition countries. Various years 1999-2001



Source: Walewski, Mateusz: The review of the labour market policies in transition economies; Paper prepared for RIINVEST, December 2002

The effectiveness of the ALMPs is not measured by the influence they have on unemployment statistics. It is measured by comparing the employment chances of participants of programmes with those who have not participated.

The evidence indicates that training is the most effective ALMP in terms of increasing the employment chances of the unemployed. Other ALMPs serve mainly as the social and psychological measure of not letting the unemployed lose their ability to work.

Regardless of the efforts that governments in transition countries undertook by applying active and passive labour market policies, unemployment remains high even after a decade of transition, while economic progress is the only long-term solution to the unemployment problem.

## II.2. THE LABOUR MARKET IN THE EU<sup>38</sup>

### Labour market indicators

Based on official statistics from EU countries and from EUROSTAT, the labour market in the EU has been recovering since 1996. Some 2.5 million new jobs have been created since then, bringing the unemployment rate to below 8%. Around 70% of new jobs go to women. This is important in terms of the utilisation of the working age population, given the low participation rates for women. Most new jobs are being created in the service sector and the labour demand for manual jobs has declined continuously. This shows that the de-industrialisation of EU countries is still underway. Long-term unemployment is at the level of 3.3%, with around 41% of the total unemployed being long-term unemployed. The overall employment rate is 63.9%, with 55% and 72% for females and males respectively.

### The EU labour market and the need for more flexibility

Even though unemployment in the EU is not as high as in transition countries, it is unevenly distributed amongst different groups. There is still low inter-regional and international migration of the labour force within EU countries. This is important in terms of alleviating the high unemployment prevailing in some parts of the EU. Recently there has been an increasing voice for more flexibility due to the following factors:

- (i) Globalisation
- (ii) Technology/new economy and
- (iii) The EMU

Some studies attribute unemployment in the EU to the rigid labour market in these countries. The inflexible nature of the EU labour market is supported by the data from job and workers turnover, which is low, even though it has been increasing lately. The EU labour market is characterised by a low real wage flexibility, which makes employment lag behind economic cycles and causes it to be, overall, lower than it would otherwise be. Low labour market turnover results from the high firm and industry specific skills that limit inter-sectoral mobility of labour and increase the costs of job loss.

### EU employment strategy

This strategy will enable the objective set in the Lisbon Strategy to be achieved. According to the Lisbon Strategy, by 2010 the EU should be the most dynamic, competitive, sustainable, knowledge-based economy, enjoying full employment and strengthened economic and social cohesion. To achieve this objective the following targets are being set:

- (i) An employment rate of 67% (70%) overall and 57% (60%) for women by 2005 (2010),
- (ii) To increase the average EU employment rate for older workers (55-64) to 50% by 2010,
- (iii) To improve basic skills, particularly IT and digital, to make the EU the most competitive and dynamic knowledge-based economy
- (iv) To modernise EU labour markets and promote labour mobility.

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<sup>38</sup> This section is based upon the presentation that Professor Nick Adnett made at Riinvest on December 6<sup>th</sup>, 2002 while he was spending one week as a consultant to the Riinvest staff, analysing the education system in Kosova and its reforms in terms of labour market requirements, within the project Labour Market and Unemployment in Kosova. The Riinvest Institute thanks Professor Adnett for his great contribution to this project.

#### Box 4: Employment Guidelines of the European Union (EU)<sup>39</sup>

The EU's Employment Guidelines are based on four strategic pillars. These are: employability, entrepreneurship, adaptability, and equal opportunity.

**Pillar one (employability)** is concerned with the supply side of the labour market. It calls for active instead of passive measures and the reduction of qualification deficits (e.g. measures aimed at combating long-term and youth unemployment; an employment-friendly policy as regards social benefits, taxes, and training systems; qualifications in the context of lifelong learning; reduction of discrimination; and promotion of social integration through easier access to employment).

**Pillar 2 (entrepreneurship)** is concerned with creating new jobs by reducing costs as well as closing the “service gap” between the US and EU. This pillar calls for the establishment and good management of firms, promotion of new employment opportunities in the knowledge-based society and in the service sector, and support for regional and local employment initiatives.

**Pillar 3 (adaptability)** is concerned with creating more flexible arrangements for the organisation of work and addresses not only government actors responsible for employment policy but also social partners. Measures are aimed at modernising the organisation of work and promoting adaptability within firms as components of lifelong learning.

**Pillar 4 (equal opportunity)** is concerned with measures geared to reducing gender-specific differences in the labour market. It calls for activities aimed at alleviating the imbalances between the percentages of men and women in certain occupations and economic areas as well as improvements in the chances of women for career advancement. The measures further call for improved compatibility of work and family life (e.g. a family-friendly policy, parental leave arrangements, facilities for children and other people in need of care) as well as an easier return to working life.

### The EU labour market and the education system

Recently, more emphasis has been paid to the need for more coordination between labour market trends and the education system. In the long-term, it seems that they are co-integrated, hence the need to treat them together and accept the fact that one is dependent on, and also affects, the other.

Average public expenditure on education in the EU is 5% of GDP. But, persistent low attainment amongst disadvantaged groups is evident. The statistical data shows that 1 in 5 of those aged between 18-24 leave school with only lower secondary education qualifications or less. Conversely, about 30% of the adult population participate in some form of continuing education or training.

Reforms of the education system are market based. Emphasis is upon increasing attainment levels by applying: (i) open enrolment; (ii) school based management; (iii) publication of performance tables; and (iv) institutional competition. These reforms translate into higher attainment levels, but also into increased stratification and inequalities as well as dysfunctional effects. In terms of achieving the objectives of the Lisbon Strategy, there is a need for a 50% reduction in 18-24 year olds with only lower secondary education.

<sup>39</sup> Dr. Irina Kausch (2002): Labour Market and Employment Policy in Transition Countries

### III. RELEVANT POLICIES FOR THE LABOUR MARKET IN KOSOVA

#### III.1. The Employment policy and the necessary macroeconomic framework

The outcomes of this research and other analyses argue that the high unemployment rate and its structure represent the main socio-economic problem to be addressed by policy makers and Ministry of Labour and Social Welfare. As the unemployment rate in Kosova is mainly a consequence of the inherited level of economic development, the key issue is to build a sound macroeconomic policy which would provide a framework and conditions for operation on a national Labour Market, to preserve existing jobs and especially create new ones. Labour market policies cannot be developed successfully if they ignore the employment/unemployment situation. A job creation policy – that means increasing the possibilities of Kosovars to find productive work, should be targeted by the strategy of economic and social development. This strategy is not yet in place and that represents a serious obstacle to building a more logical correlation between economic policy, employment policy and social policy, which should lead to a more employment friendly climate and sustainable employment increasing trends. Labour Market policies should expand the possibilities for individuals to be employed and increase the labour demand.

The integration and coordination of the activities of different actors and policy measures is the main issue to be discussed and developed, especially by the Ministry of Labour and Social Welfare, other government agencies and UNMIK.

Although this report does not focus on analysing the impacts of different policies on employment possibilities, we will indicate briefly some of the issues within respective policy areas that should be adjusted towards employment policy and labour market needs:

- **Tax policy** – this should become more friendly for investors and job creation; imports of capital goods and agricultural inputs should enjoy tax incentives; although this might create some difficulties in tax administration, the current level of unemployment should prevail in favour of this recommendation. The tax policy also should discourage an informal labour market. Instead of increasing current taxes on wages at this stage, it would probably be more preferable to increase the level of tax collection. Taxes on wages are only paid for around 80,000 employees.
- **Credit policy** – the current credit market is not yet suitable for investments in job creation – Credits are short-term (mainly one year), with high interest rates (12-14 % annually). Long-term savings are not stimulated by banks (very low interest rates), which creates difficulties for banks in providing long-term lending.
- **Trade relations and export possibilities** - Kosovar importers and exporters are still facing different obstacles, asymmetric trade relations, and a lack of reciprocity (trade regimes and custom duties are not applied to neighbouring countries).
- **FDI friendly environment** is still absent. There is no adequate promotional strategy associated with coordinated activities. Because of policy inadequacies, primarily in the three above-mentioned areas, as well security considerations, the attractiveness of Kosova for FDI is not yet at the necessary level.
- **SME development, agricultural development and family businesses** are expected to be the generators of new jobs. Overall and sectoral strategies and policies should be built upon this fact.

### III.2. Labour market policies

As is stated in part I.4, the Ministry of Labour and Social Welfare is more and more visible as a key player in the creation and implementation of labour market policies and the building of labour market institutions. The Ministry and other institutions are in the process of increasing their capacity for implementation and also for coordination of the activities of different actors.

Kosova is in the process of building its labour market institutions and policies. The experiences from other countries are being considered and used accordingly. These countries have accumulated considerable experience in terms of reforming their labour markets. The legal framework tends to create an institutional environment where workers are protected and supported. However, for policy-makers in Kosova it would be more preferable to opt for a flexible, and not rigid, labour market legal framework. Experiences from other countries have shown that rigid laws might create more problems than they would solve. First of all, they could increase employment costs and negatively affect job creation. From this point of view the existing regulation, with some possible corrections, could serve as a good base for the development of proper policies and institutions for the labour market at this stage of its development.

Establishing sustainable active and passive labour market policies should be based upon the characteristics of the labour market in Kosova: high unemployment, especially amongst women and the young population, with potentially high net inflows. The key target is job creation, which is more related to other policies and the macroeconomic framework. In this specific situation and with the existing budget constraints, labour market institutions and policies should stimulate the mobility of the labour force, modern education, and a lower tax burden on wages.

(a) **Active labour market policies** are aimed at improving offers of work and creating conditions for the necessary adjustments between workers and the labour market. In this area the main issues for consideration are: (1) improving the education system (2) better organisation of training and (3) policy support for self-employment.

The education system should provide opportunities for new inflows into the labour force, equipped with the modern knowledge and skills required by new technologies. Given the limited absorptive capacities of labour demand in the Kosovar labour market, the education system should also provide possibilities for competitiveness and employment in the EU zone.

Attention must be paid so that during the process of designing training programmes for the unemployed, the needs of the labour market/employers are considered. Indeed, skills required by employers must underpin the training programmes.

Any training programme must target youth and female unemployment, since these two groups are the hardest hit, and it must also target the long-term unemployed. Many unemployed have not worked since the massive lay-off of 1989-1991. The human capital of these workers is now almost unusable and until they go through an adequate training programme, it is very unlikely they will find jobs. The education system and training network should stimulate life long learning in accordance with technical changes and labour market needs.

Self-employment measures need to be designed as an integral part of private sector development policies, bearing in mind the limited possibilities of support from budget funds. It is necessary to create specific schemes for cooperation with donors and credit lines that would support job creation.

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(b) **Passive labour policies** respond to conditions created by the labour market and are focussed to provide benefits for unemployed people. The introduction of unemployment benefits must be integrated with active labour market policies and carefully weighted and designed, bearing in mind budget limitations and the adverse effects of increasing taxes on wages for contributions for unemployment benefits. The concern is that with the introduction of unemployment benefits, the number of unemployed people is likely to increase significantly, i.e. many female workers might decide to enter/re-enter the labour force.

Unemployed people should be encouraged to register at Employment Offices since this is the only way to find out the real structure of the unemployed. This is important in terms of addressing them with appropriate policies such as training programmes for qualification and re-qualification and for providing some schemes for financial assistance and employment generation. Employers are to be encouraged to report their vacancies to Employment Offices. They should see that it is in their interests to report the vacancies in terms of finding the appropriate employees for these vacancies. This situation could be improved through better cooperation between Employment Offices and business associations – the latter can accurately identify the employers' needs for workers.

Employment Offices should act as a real and meaningful intermediary between the unemployed and employers. Though most of the officials serving in Employment Offices have undergone some kind of training, additional training is necessary for these officials to enable them to offer better training to unemployed people. Employment Offices lack the necessary staff, who need to be hired and trained.

Measures for reducing the informal labour market should be handled as part of the overall efforts in improving governance and increasing transparency of the informal economy. The tax policy should be weighted to discourage an informal labour market.

The enactment of labour market instruments such as the minimum established wage and severance payments should also take into account the labour market specifics in Kosova, labour costs, the impact on job creation and on the reduction of the informal labour market.

Current Labour Law should be tested to see if it is able to provide minimal protection against unlawful dismissal but also provide enough flexibility and mobility for employers and new employment.

An issue of an urgent nature is the consolidation of the Labour Market Information System and Statistics. The Ministry is providing monthly statistics on the registered unemployed and on the activity of labour offices (mediation and training), but the statistics on employment/unemployment trends based on a regular system of household surveys are not in place. These surveys should track the economic activity of the population and provide policies for proper labour market segmentation.

## ANNEX I – THE LABOUR MARKET IN ALBANIA AND BULGARIA

### 1. THE LABOUR MARKET IN ALBANIA

At the start of transition, the Albanian labour force was substantially affected by two factors: the reconstruction of state enterprises (which is common in all transition countries), and large-scale emigration, especially from amongst the labour force. Emigration has had a significant effect on the supply and demand side of the labour market. It might also have had a significant positive effect on hiring in the private sector (conditional on remittances) and reducing unemployment.

#### Unemployment

The unemployment rate reached the level of 26% in 1992, its highest level during the 1990s. In 2001 it was 15%, although this official data treats as employed those living in rural areas and owning a piece of agricultural land. As in other transition countries, Albania has significant regional disparities in unemployment rates. Poor infrastructure in Albania, where some remote regions are very isolated, contributes to high unemployment in these regions. These disparities are, to a great extent, due to mono-industrial areas during the pre-transition period.

The group hardest hit by unemployment are young workers. Youth unemployment in Albania is characterised by low-qualified people, who left school early because of the economic inability of their families to support their schooling. Apart from that, high unemployment for young workers is due to their entrance into the labour force for the first time. Over 40% of the young unemployed are long-term unemployed, which creates problems for their further integration into working life. Long-term unemployment is a real concern in Albania. Its proportion of the total unemployed has been increasing throughout the 1990s, reaching the level of 90% in 2000.

#### Labour market instruments and employment policies

The Ministry of Labour and Social Welfare, as a main body, applies its policies through established and nationwide employment offices. The Ministry is responsible for setting priorities and determining the general policies with respect to employment and vocational training, while other structures and the National Service of Employment (NES), which covers all the employment offices, are responsible for the implementation of these policies.

There are two groups of employment policy in place; (i) the instruments of passive support (for example the payment of unemployment benefit, financial assistance); and (ii) the active instruments that provide active measures to reduce unemployment (for example, under another scheme, the state pays the salaries, including social insurance payments, of employees on behalf of businesses for a period of six months). However, it has not yet designed an overall strategy of employment in Albania and the non-profit organisations view this as a lack of governmental vision to reduce unemployment.

The NES was established in 1998 and covers 12 regional employment offices, 24 local employment offices and 8 vocational training centres nationwide. The activity of the NES is mainly focused on: (i) offering assistance to every citizen in finding a job, (ii) providing advice and information with respect to career development and training, and (iii) providing assistance and unemployment benefits to unemployed people.

According to NES officials, the number of registered unemployed in 2000 was 215,000. During 2002 the employment offices mediated in the employment of 5,000 persons, while 6,200 persons benefited from vocational training. However, the contribution of these offices is still considered modest and their role as mediators in the labour market should be strengthened further.

In order to increase employment rates in the long term, political stability, domestic and foreign investments and other factors such as education, personal and professional skills and the implementation of training programmes are of a great importance. The existing gap between the demand and supply of the labour market should be overcome through training programmes, while the disproportion in quantity should be reduced by encouraging economic growth and investments.

### **Box 5: The case of Berat city**

The city has a high rate of unemployment. After the bankruptcy of the state enterprises (textile and weapons production) the majority of the 28,000 employed people lost their jobs in a short period of time. Approximately 9,000 people are employed in both the formal and informal sectors; while the rest have either left the country for a job abroad or are unemployed. There are 1,100 registered businesses in the city, with a total of 2,600 persons employed that account for 9% of employed persons in the early 1990s. The development of businesses is insufficient to absorb the high number of unemployed persons. Two Italian investors have employed a small number of textile workers through their business. The lowest income group of people cooperates more with the employment office in job seeking. Private enterprises do not declare the real number of employed people. Despite their legal obligation, they do not declare job vacancies and do not ask for intermediate assistance from the employment office. *According to the officials of the employment office, a great number of unemployed people are considered as voluntarily unemployed because they benefit from remittances or handle different activities abroad and do not register in employment offices.* Another problem is the disparity between the existing professions (textile and arms production skills) and the needs of current businesses for new skills. The old professions remain untransformed in the undeveloped labour market of this city. It is hard to see any viewpoint that would soon lead to the reduction of the unemployment rate. Also, partnership between local government and the business community is lacking.

The following labour market instruments and employment policies are applied in Albania: (i) the minimum wage (which is 9,400 lekë, approximately \$60); (ii) unemployment benefits (where a person can receive benefit for up to one year); (iii) financial assistance (families that lack the necessary means of living may benefit under this scheme for an unlimited period of time); and (iv) financial assistance to disabled people.

### **Emigration, remittances and their impact on the labour market**

During the transition period, the labour force in Albania was substantially affected. It is estimated that the labour force has been reduced by as much as 15%. Most of the emigrants are located in Greece (400,000) and Italy (150,000). Male emigrants and the age group of 20 to 30 years old make up the majority of the total number of emigrants. At the same time a high level of internal migration has been observed, in favour of the increase in the urban population from 35% (1990) to more than 40% (2000). It is estimated that remittances account for approximately 500-600 million dollars per year and they have a high impact on the investment activities and social welfare of the population. The category of unemployed people known as "voluntarily unemployed" is strongly related to remittances. This category is reluctant to work due to the cash flow from outside remittances. Whilst remittances are of great importance for the construction sector, family budget and consumption, as well as for the reduction of overall poverty, on the other hand, according to some non-profit organisations "they have no substantial role in strengthening the sustainability of economic development in the country".

### **Labour market legislation**

After the 1990s, labour legislation in Albania was reformed in order to fit the reality of the new economic and political system. Current labour legislation is widely based on western policies and models. One of the basic documents of the labour legislation is the Labour Code of the Republic of Albania, enacted in 1995, which in addition to providing for well-known principles (such as the prohibition of discrimination in the work place, the right to strike, prohibition of compulsory work,

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etc.), provides for labour relations, wages (including the minimum wage), security and health protection in the work place, collective agreements, trade unions, etc.

In addition to the Labour Code, Parliament has enacted a number of laws that further complete labour legislation, such as the Law on the State Labour Inspectorate and the Law on Promoting Employment, while the government has passed a number of decisions and guidelines in support of the laws enacted by Parliament. As officials of the Ministry of Labour emphasised, the labour legislation is good, but more work is needed towards the enforcement mechanisms that should assure its application. Undoubtedly, a reformed and contemporaneous labour legislation plays a key role in the process of the institutionalisation of the labour market.

Social insurance legislation also impacts highly on the labour market. Even this piece of Albanian legislation consists of a number of laws (for example the Law on Social Insurances in the Republic of Albania, the Law on Health Insurances, the Law on Supplementary Pensions and Private Pension Institutes, the law on the Identity Number of Social Insurances, the law on Supplementary Social Insurances for Military Personnel of the Armed Forces of the Republic of Albania, etc.), decisions and guidelines. Here a concern raised by some non-profit organisations is that the heavy burden of the contribution for social insurance stimulates non-compliance with these legal obligations on the part of employees.

### **Informal labour market**

The informal labour market should be seen in the light of the social situation, economic growth, investments and overall level of wages in the country. The informal economy is becoming stronger, primarily due to the lack of implementation of fiscal instruments. According to NGOs the level of informality in the labour market is also due to the high level of social security contributions applied in the country. Businesses usually conceal the real number of people employed in order to avoid their legal obligations. Due to these manipulations some large businesses categorise themselves as small businesses and conceal their financial and human capacities. So far, there is no relevant analysis in Albania dealing with the dimensions and structure of the informal labour market.

## 2. THE BULGARIAN LABOUR MARKET - DEVELOPMENTS AFTER THE 1996-1997 CRISIS AND THE CURRENT SITUATION <sup>40</sup>

During the last 7 years employment creation in Bulgaria has been, on average, smaller than job destruction. The level of aggregate employment in 2002 was 9.5% lower than the level in 1995. The process of faster job destruction is clearly shown by the constant decline in employment between 1997 and 2000. The structural reforms in the state-owned and newly privatised companies induced an initial decline in employment levels after the reforms gained momentum in 1997. A turnaround in the trend of declining employment occurred in 2002, when a positive change over the previous year was registered (although only preliminary data is currently available).

It seems that significant worker reallocation is stimulated by the reallocation of job opportunities from large companies (mainly ex-state-owned) to small and medium-sized ones. The process goes hand in hand with the reallocation of other resources in the same direction. In addition there is a separate process of worker reallocation, which is demand driven too, within the sector of SMEs, as obviously company turnover there is significant. Privatisation induced a faster structural change in employment as the private sector share grew from 42% in 1996 to 74% in 2002. The sale of state-owned companies accelerated in 1997 and this can be seen from the biggest jump in the private sector share in employment that took place in 1997 – 13 percentage points.

Table 4.1: Key Policy Issues and their Impact on Job Creation (1997 – 2002)

Policy	Period	Impact
Financial crisis and hyperinflation	Early-1997	Negative
Currency board arrangement (CBA)	Mid-1997 - ongoing	Positive
Fiscal prudence along with CBA	Mid-1997 - ongoing	Overall: Positive
Hard-budget constraints	1997 – ongoing	Positive
Budget deficit within 2% of GDP	1998 – 2001	Positive
Financial Intermediation Improvement	1998 – ongoing	Overall: Positive
Privatisation of state-owned banks	1997 – 2000	Positive
Increased supply of bank credits	1998 – 2001	Positive
Privatisation of 73% of privatisable assets	1997 – 2001	Positive
Privatisation contracts with labour clauses	1997 – 2001	Negative
Changes in Business Environment	1997 - 2001	Overall: Mixed
No inflation tax	Mid-1997 - ongoing	Positive
Permit regimes introduced in certain sectors	1997 – 2000	Negative
Reduction of price controls	1997 – 1998	Positive

Table 4.2 shows the numbers of officially registered employed which, according to some studies, differs from the actual number of jobs in Bulgaria.

Table 4.2: Level of Employment. Share of Public and Private Sector.

	1995	1996	1997	1998	1999	2000	2001	2002*
Employment (000)	3,282	3,286	3,157	3,153	3,088	2,980	2,940	2,971
% in private sector	41	42	55	61	65	71	73	74
% in public sector	59	58	45	39	35	29	27	26

Note: \* IME forecast for 2002.

Source: National Statistical Institute.

In the former state-owned firms, it was generally possible for some productivity gains to take place quickly, even without additional capital investment. There is evidence that productivity improvements in former state companies outpaced the productivity growth in de novo private companies, for productivity growth has been bigger in large companies compared to SMEs. The

<sup>40</sup> This review is based primarily on G. Stoev, (2002), *Macroeconomic Development in Bulgaria After the 1996-1997 Crisis: A Labour Market Perspective*, Background Paper prepared for the World Bank Poverty Assessment Update, Institute for Market Economics, Sofia.

faster productivity growth in privatised companies is associated with the destruction of more jobs than jobs created. This negative net employment effect in privatised companies has been partially compensated by the employment opportunities in the SMEs, where a more dynamic turnover of jobs and producers, and a positive net effect on employment, has been observed.

According to estimates, the actual wage differs significantly from the one registered by official statistics. Based on a recent survey on Bulgaria's shadow economy<sup>41</sup>, actual pay in mid-2000 was probably about BGN 350, while the average monthly salary was BGN 230. It is suggested that probably even some of the state-owned enterprises underreport workers' pay. The main reason for underreporting wages is evidently avoiding taxes and mandatory insurances.

The trend of unit labour costs (defined as the share of labour costs with value added) has been similar to real wage developments. There was a fall in the average ULC in 1996 and 1997, when the indicator fell from 46.2% to 38.5% of unit value added. This development results from the steeper fall of real wages compared to output, which shows that the hyperinflation was most devastating for income from labour. The recovery of the pre-crisis levels of ULC was slower than the fall, similar to real wage dynamics.

## **The institutional structure of the labour market and policies to reduce unemployment**

- (i) The Ministry of Labour and Social Policy - Main functions with regard to the labour market include: analysis and forecast of labour supply dynamics, coordination of the state policy on employment promotion, regulation and supervision of the regional labour offices.
- (ii) Employment Agency under the Minister of Labour and Social Policy - Main functions: agent of the state employment policy, professional training and consultation, motivational activities, as well as an intermediary on the labour market. (Former name: National Employment Service).
- (iii) 9 Regional Labour Services - They are divisions of the Employment Agency and are based in major cities.
- (iv) 115 Local Labour Offices - which are subsidiaries of the Regional Labour Offices.

There are two major governmental documents that set the framework of governmental intervention in the labour market: (i) the New Social Policy Strategy, and (ii) the National Plan for Employment in 2001 (which has not been updated for 2002). In addition, the Labour Code and the Employment Promotion Act set the general legal framework for the labour market. The New Social Policy Strategy puts forward the following objectives as priorities for the labour market policy:

- (i) Ensure a well functioning labour market that guarantees a higher rate of employment for the economically active population. In this respect, the MLSP tries its best to support the liberalisation of the licensing and regulatory regimes.
- (ii) Enhance employability. It refers mainly to the relevant training needed to acquire professional skills and qualifications in line with the new requirements of employers.
- (iii) Encourage entrepreneurship, especially in the field of traditional local crafts and manufacture, making the best use of the opportunities provided by the *Business Centres* and *Business Incubators*, which foster permanent employment.
- (iv) Create employment for disadvantaged persons. This objective is to be delivered mainly through the creation of subsidized employment directed to the unemployed disadvantaged groups in the labour market (young people, women, disabled persons, single mothers, mothers with children up to 3 years old, orphans, the long-term unemployed with no vocational training and elementary or lower education, the unemployed over 50 years of age).

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<sup>41</sup> Ibid.

Table 4.3: Demand and vacancies on the initial labour market in 2001

Indicators	Number of	Indicators	2001
1. Registered vacancies for:	150,281	1. Unemployed	669,610
- Workers	29,585	Incl.:	
- Specialists	37,245	- Workers	155,769
- Unskilled workers	83,451	- Specialists	113,584
2. Filled vacancies by:	130,327	- Unskilled workers	400,257
- Workers	24,428	- Women	348,626
- Specialists	33,119	- Young people (up to	100,522
- Unskilled workers	72,780		
3. Vacancies for:	9,246		
- Workers	2,112		
- Specialists	2,179		
- Unskilled	4,955		

Source: Employment Agency with the Ministry of Labour and Social Policy.

### Informal Employment

Recent research reveals that between 2.5% and 3% of the employed are not registered, which means between 70,000 and 90,000 persons are working without any kind of job contract. In the same survey, it is said that between 13% and 15% of companies hire people without contracts, with this practice most common in the agricultural and trade sectors.

According to estimates, in mid-2000 the actual wage was about BGN 350, while the average monthly salary was BGN 230. It is suggested that probably even some state-owned enterprises underreport workers' pay. If we extrapolate the findings for the year 2002, we may expect to find that the actual average wage in Bulgaria today is about BGN 410.

## ANNEX II. OUTLINE OF THE SURVEY METHODOLOGY AND SAMPLE

### I. The survey sample

The survey sample was designed to cover both urban and rural areas. Given the fact that the average size of the family is larger in rural areas, the survey sample was not distributed proportionally to the size of the population in urban and rural areas (the population in Kosova is estimated to be spread in the proportion of 55% to 45% in rural and urban areas respectively), since this would mean more persons in the survey sample from rural areas. The table below shows the number of interviewed families in urban and rural areas.

Table 4.4: Survey sample distribution in urban and rural areas

Residence	Interviewed families	Percent
Urban	622	49.7
Rural	630	50.3
Total	1,252	100.0

Distributing the survey sample in such a way proved to be appropriate. Our survey showed this percentage as in the table below.

Table 4.5: Sample distribution and the average number of families

	Interviewed families	Persons	Percent	Average members per household
Urban	622	3,733	43.7%	6.00
Rural	630	4,819	56.3%	7.65
	1,252	8,552	100.0%	6.83

The first stratification of the survey sample was done in rural and urban areas. A list of all the villages in Kosova was provided in order to draw up a random list of villages to be selected for the survey sample. The total number of villages in Kosova (1,297) was divided according to the 7 main regions (see table below). Then, according to the number of villages per region, the random selection of villages was drawn. In each village some 10 households were interviewed. Two starting points were set to enable a particular household to be chosen (one at the entrance to the village and the other at the centre of the village or the village school) and the first, third, fifth, seventh and ninth households on the right hand side of the road were interviewed. Only 5 interviews were conducted from one starting point.

Table 4.6: Sample distribution in rural areas

Nr.	Regions	Total number of villages	Percent	Sample villages	Interviews
1	Prishtina	291	22%	14	140
2	Prizreni	227	18%	11	110
3	Peja	191	15%	9	90
4	Mitrovica	248	19%	12	120
5	Gjilani	172	13%	8	80
6	Ferizaj	100	8%	5	50
7	Gjakova	68	5%	3	30
	Total	1,297	100%	61	610

The sample for urban areas was selected on the basis of the size of the population living in those areas, though not exactly proportional, due to some small municipalities, where the number of households was increased in order to gain insights into the real situation prevailing in those areas.

Selecting the particular households in urban areas was done in a similar way to rural areas, after setting some starting points.

## **II. Definition of the unit of observation**

The unit of observation in this survey was the household. One can find different definitions on how to determine household members, such as those who have slept during the last night in that household, those who usually reside in that household and those who share the common budget. Another definition in deciding who is a household member is to use the criteria of sharing the common kitchen.

In terms of defining the household, Kosova has some characteristics. Each family has one head who is recognised by all family members and whose authority in making decisions on household issues is usually very strong. He or she (in most cases it is he, due to the patriarchal nature of Kosova society) is the one who usually controls the budget of the family. The latter is very centralised and therefore this fact can be used as a criteria for defining the household for our survey sample. Moreover, when a male member of the family forms a separate household, with a wife on a separate property, members of the new household cease to be members of the previous household. The same applies for female members – when a female member marries, she ceases to be a member of her previous household. Therefore, there is a clear understanding of who is considered as a family member.

Due to the very strong tradition in what has been discussed above, there are grounds to believe that the definition of the household has a common understanding and the common budget can be applied for defining the household. The first and the second criteria do not seem to be reliable in Kosova given the emigration of family members.

## **III. The time frame and the survey team**

Preparation for the survey started in October, and during November, together with experts from the Macroeconomic Analysis Unit of the Ministry of Economy and Finance, the survey questionnaire was designed. Whilst preparing the questionnaire, Riinvest sought advice from two of its international consultants engaged in the project ‘Labour Market and Unemployment in Kosova’ (Professor Nick Adnett from Staffordshire University, UK and Mr. Mateusz Walewski from CASE, Poland).

Due to the very specific nature of this survey, the surveyors underwent four days of training. Data gathering started on November 27<sup>th</sup> and was completed by December 11<sup>th</sup>, in a time frame of two weeks.

In the meantime (just two days after the fieldwork started), the process of data entry started, making it possible to complete this activity three days after the fieldwork was completed. Each questionnaire went through the logical control; while 15% of the questionnaires were checked in the field (through a phone call to the interviewed families) after the surveyors brought back the forms filled with the address of the interviewed families.

Some 51 surveyors were engaged in the fieldwork, supervised and managed by 7 researchers from Riinvest. In addition to the training on the nature of the questions in this questionnaire, Riinvest engaged a consultant to provide training on the psychological aspects of the interview. The surveyors were students from the Faculty of Economics and the Faculty of Agriculture of the University of Prishtina and most of them had previous experience of such work.