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Social Assistance Scheme Reform



—
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Introduction

On September 29, 2021, the World Bank Board of Directors approved the loan for the Social Assistance System Reform in Kosovo, a project which aims to improve the social assistance scheme and social protection programs.¹ The social assistance reform program includes financial support from the World Bank (WB) of EUR 47 million, provided in the form of a low-interest loan with a repayment period of 30 years.²

Through this project, WB supports the Government of Kosovo in (a) reforming the Social Assistance Scheme (SAS); (b) investments in the social assistance distribution system; and (c) increasing the amount of social assistance to mitigate the effects of the Covid-19 pandemic.

One month later, on October 26, 2021, the Ministry of Finance, Labor and Transfers (MFLT) and WB formally signed the agreement in Pristina.³ On December 10, 2021, the Government approved the Draft Law on the Ratification of the Financing Agreement of the "Social Assistance System Reform Project" between Kosovo and WB.⁴

Of the EUR 47 million loan, the Government plans to spend over EUR 43 million on subsidies, namely social assistance payments for beneficiaries. It was this fact that made the Assembly not approve the Draft-Law on the Ratification of the Financing Agreement with WB. In the Assembly plenary session on January 21, 2022, the Draft-Law failed to collect 2/3 of the votes of MPs, required for the approval of international agreements.⁵ This was the first rejection of an international agreement in the history of the Assembly of Kosovo.

Not accepting the failure of the agreement and refusing to change the terms of the loan with WB, on March 23, 2022, the Government again approved the Draft-Law on the Ratification of the Financing Agreement with WB and submitted it to the Assembly. The Draft-Law again failed to obtain the required votes at the Assembly plenary session, on May 11, 2022.

In this brief paper, GAP Institute aims to analyze the current issues with the Social Assistance Scheme, the background of efforts to reform the scheme, the financial agreement between the MFLT and WB, as well as the omissions in the financial impact assessment.

1 World Bank. Kosovo to Improve its Social Assistance System, with World Bank Support. September 29, 2021.

Source: <https://bit.ly/3OIDCbS>

2 Assembly of Kosovo. Financing agreement. Source: <https://bit.ly/38A33fa>

3 Ministry of Finance, Labor and Transfers. Minister Murati signed the agreement on the "Social Assistance System Reform Project in Kosovo" with the director of the World Bank for Kosovo Massimiliano Paolucci. October 26, 2021.

Source: <https://bit.ly/3vL6szO>

4 Government of Kosovo Decision No. 9/47. December 10, 2021. Source: <https://bit.ly/3Kf525S>

5 Assembly of Kosovo. Vendimi No. 08-V-179. January 21, 2022. Source: <https://bit.ly/3rVEWi0>

Social Assistance Scheme

In March 2000, the United Nations Administration in Kosovo (UNMIK) established the Administrative Department of Health and Social Welfare, a function of which was to "provide financial [sic] assistance, to the extent possible, to families and individuals in need".⁶

After the first parliamentary elections and the formation of local institutions, one of the first laws adopted by the Assembly of Kosovo was the Law on the Social Assistance Scheme.⁷ According to the Law, SAS provides financial assistance to selected families in accordance with the financial and non-financial criteria as defined by the law and the rules of the relevant ministry.⁸

To receive social assistance, all household members must meet the requirements for classification in one of two categories:

Category I: A family where all members are dependent and no such dependent is employed;

Category II: A family with one member fit to work, but who is unemployed, with at least one child under the age of five, or an orphaned child under the age of 15 in full-time care.

Figura 1. Eligibility Criteria for the Social Assistance Scheme



Source: GAP, based on the Law on Social Assistance Scheme

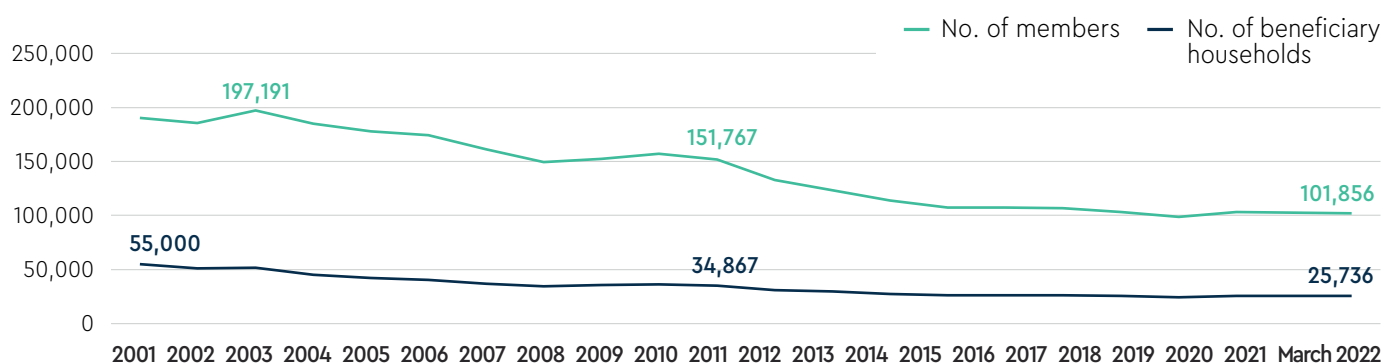
⁶ Official Gazette of UNMIK. Regulation No. 2000/10. March 3, 2000. Source: <https://bit.ly/37Tv6WZ>

⁷ Assembly of Kosovo. Evidence of laws. Source: <https://bit.ly/30F2DEY>

⁸ Official Gazette of Kosovo. Law No. 2003/15 on the Social Assistance Scheme

According to the criteria, from 2001 until March 2022, on average, around 34 thousand households received social assistance, with around 140 thousand members. The number of beneficiary households and members has decreased from 2003.⁹ This decrease was also influenced by the amendments to the Law on Social Assistance Scheme in 2012, in particular the eligibility criteria for Category II, despite the fact that the poverty and unemployment parameters failed to indicate improvements. The number of social assistance beneficiaries has decreased significantly, from 36,129 households (2010) to 25,736 in the first months of 2022.¹⁰

Figura 2. Number of households and members in the Social Assistance Scheme from 2001 until March 2022



Source: GAP, based on KAS reports on social welfare (2003–2022)

The monetary value for social assistance beneficiaries varies by family size and this value has varied from 2003 to 2018, as shown in Table 1.

Tabela 1. Monthly payments for households benefiting from the Social Assistance Scheme

	Monthly payments in Euro (€)				
	2003–2004	2005–2006	2008–2014	2015–2017	2018–2022
Households with 1 member	34	35	40	50	60
Households with 2 members	47	50	55	68.75	82.5
Households with 3 members	52	55	60	75	90
Households with 4 members	57	60	65	81.25	97.5
Households with 5 members	62	65	70	87.5	105
Households with 6 members	67	70	75	93.75	112.5
Households with 7 members	72	75	80	100	120
Households with 8 members	77	80	85	106.25	127.5
Households with 9 members	82	85	90	112.5	135
Households with 10 members	87	90	95	118.75	142.5
Households with 11 members	92	95	100	125	150
Households with 12 members	97	100	105	131.25	157.5
Households with 13 members	102	105	110	137.5	165
Households with 14 members	107	110	115	143.75	172.5
Households with 15 members	112	115	120	150	180

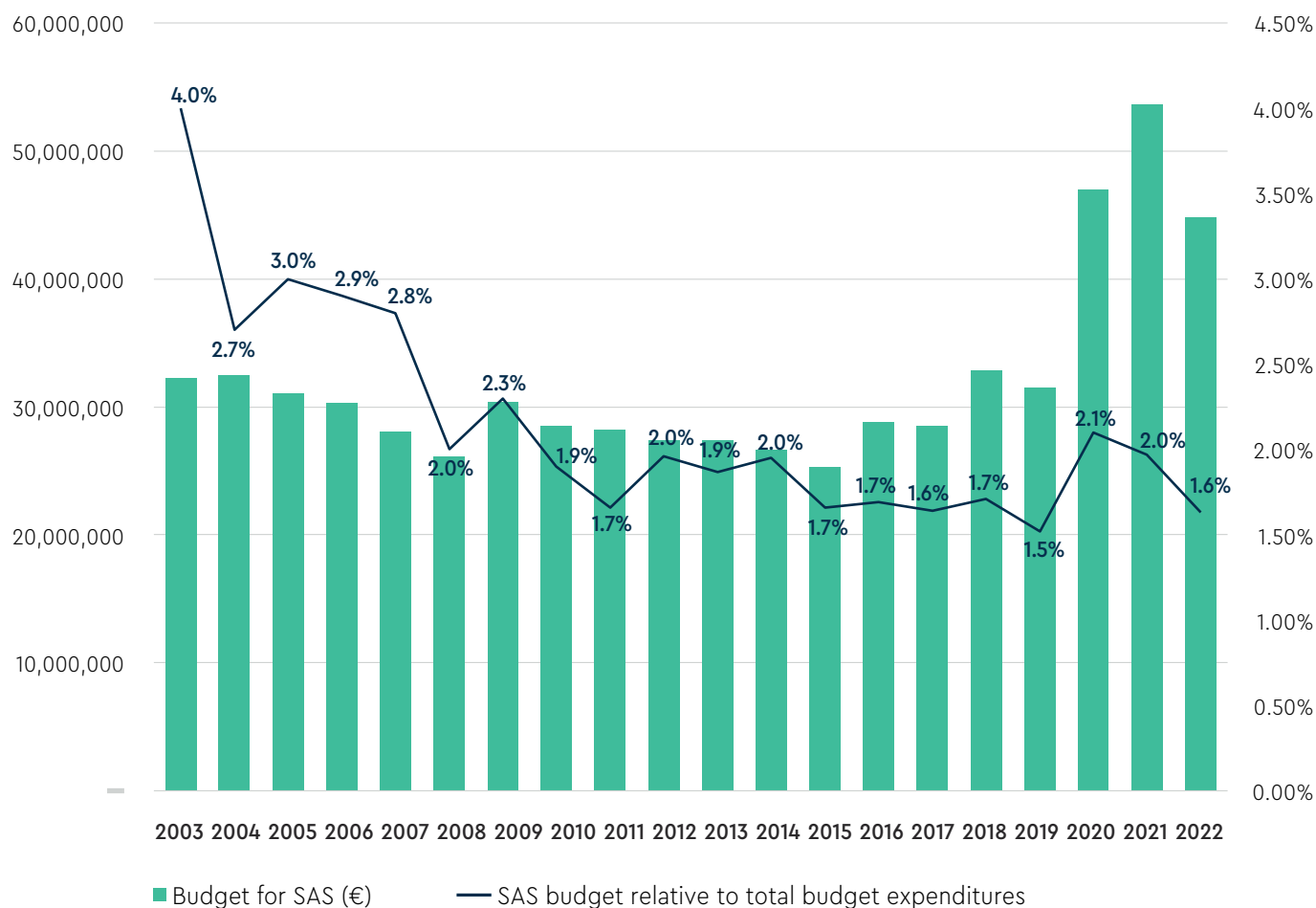
Source: GAP, based on KAS reports on social welfare (2003–2022)

⁹ KAS. Periodic reports on health and social welfare since 2001.

¹⁰ Ministry of Labor and Social Welfare (merged with the Ministry of Finance, Labor and Transfers since 2021). Sector Strategy 2018–2022. Source: <https://bit.ly/3EZx7Zl>

From 2003 until 2022, the state budget has spent an average of EUR 32 million per year on SAS, or a total of EUR 641 million over two decades. Despite the fact that the SAS budget has virtually remained the same (with the exception of the period 2020–2022, which saw an increase of transfers for this category with various government decisions), the share of SAS in the total state budget has declined.

Figura 3. The budget for SAS and its share in total annual expenditures from the state budget, 2003–2022



Source: GAP, based on KAS reports on social welfare (2001–2022) and GAP platform for budget expenditures

In addition, the budget for SAS has remained virtually unchanged, despite the fact that total social transfers in the budget have increased continuously, as a result of the establishment of new social schemes.

According to WB, social assistance in Kosovo declined as part of social protection expenditures almost threefold, between 2009 and 2019. Expenditures for SAS fell by 8.4% in real terms, from 0.69 to 0.45% of GDP. Only about 7% of the general population benefits from SAS, while the official poverty rate is around 20%. Only one in four people in the lower quantile receive social assistance.¹¹

¹¹ World Bank. Western Balkans Social Protection Situational Analyses – Kosovo. 2022 Source: <https://bit.ly/3kalcio>

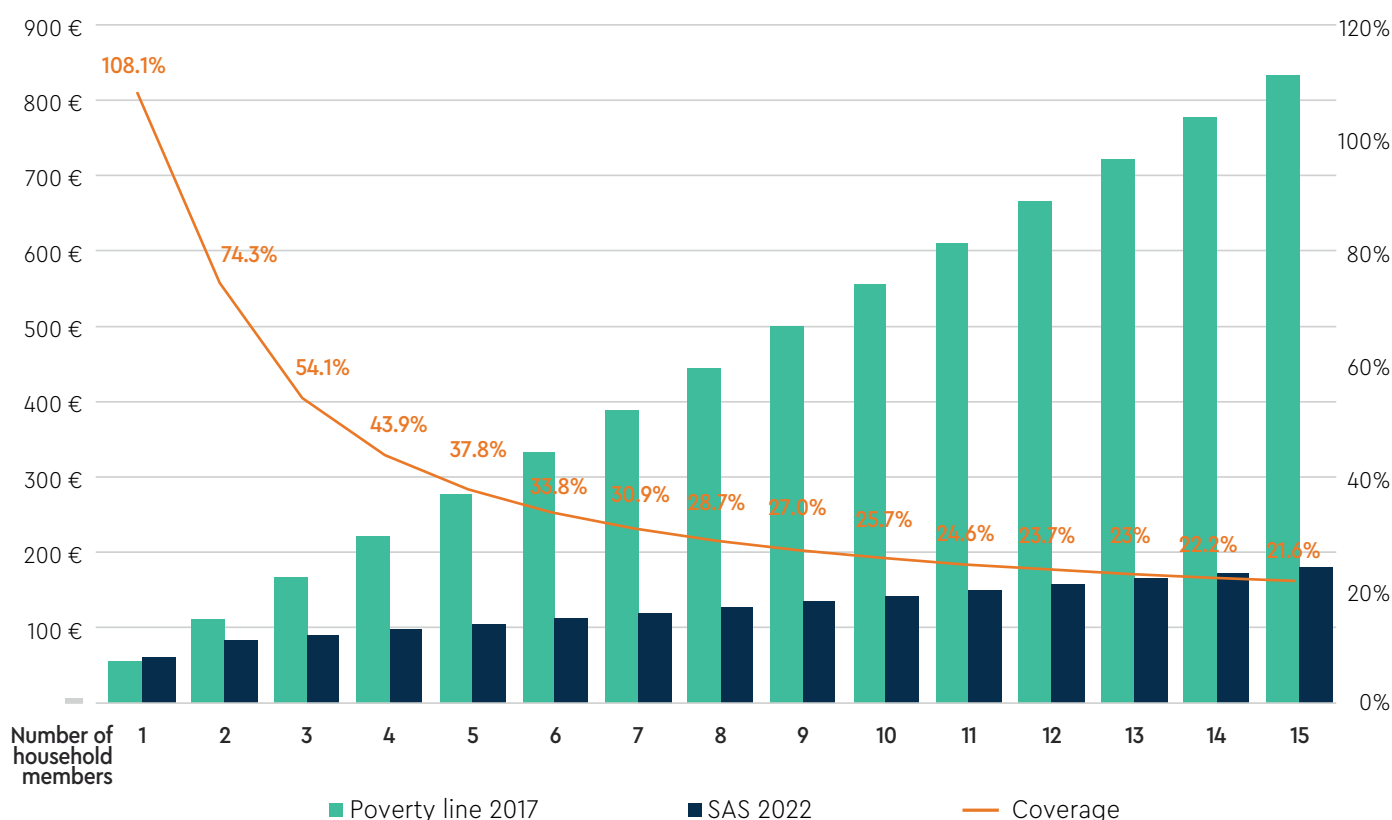
Kosovo Poverty Rate

The poverty rate in Kosovo has been steadily declining since the post-war years. In the first Poverty Assessment, conducted in 2000, WB findings showed that over half of the population (50.3%) lived in poverty, while 11.9% of the population lived in extreme poverty.¹² Seven years later, poverty levels had declined slightly, namely 45% of the population lived in poverty, while extreme poverty had risen to 15%.¹³

The latest 2017 data published by the Kosovo Agency of Statistics (KAS) show that the poverty rate in Kosovo was 18% (people living on EUR 1.85 per day), and extreme poverty at 5.1% (people living on EUR 1.31 per day).¹⁴ The Covid-19 pandemic, which also affected Kosovo in 2020, increased the poverty rate in 2020, but then marked a decline in 2021. According to the WB, at the end of 2021 poverty in Kosovo was 20.9%.¹⁵

Increased consumption prices and the crisis due to the war in Ukraine are expected to increase poverty in Kosovo furthermore. However, the monthly payments for households in social assistance was already small and insufficient to lift them from poverty prior to the Covid-19 pandemic. Looking at the monthly payments by size of household and the 2017 poverty rate of EUR 1.85 per day, it results that all households with two or more members remain in poverty even after receiving social assistance.

Figura 4. SAS poverty coverage by household size



¹² World Bank. Kosovo Poverty Assessment, Volume II. Report No. 23390-KOS. December 20, 2021.

¹³ KAS and WB. Poverty Assessment in Kosovo. October 3, 2021. Source: <https://bit.ly/3LsRXY1>

¹⁴ KAS and WB. Poverty in consumption. May 2019 Source: <https://bit.ly/38C8Uks>

¹⁵ World Bank. Greening the recovery – Western Balkans Regular Economic Report No. 20. Fall 2021. Source: <https://bit.ly/38sY0xc>

To respond to the consequences of the pandemic, since 2020, governments have taken various measures to increase assistance to families under SAS. On March 30, 2020, the Government approved the Social Emergency Package of nearly lower EUR 180 million, with the first measure providing double social assistance for beneficiary households for the months of April and May 2020, with a total of EUR 7.65 million allocated for this measure.¹⁶

Following the formation of the new government, the EUR 360 million Economic Recovery Program¹⁷ was approved on 13 August 2020, of which EUR 7.5 million for double social assistance payment for the last quarter of 2020.¹⁸

On July 14, 2021, the new government formed after the February 2021 parliamentary elections approved the Economic Recovery Package of EUR 423 million, with measure 3.2 providing for subsidies of families on social assistance by 30% over the amount they usually receive.¹⁹ In April 2022, the Government allocated additional EUR 100 for households under SAS.

Measure 3.3 of the Economic Recovery Package envisages the allocation of EUR 12 million for the social scheme reform, arguing that 'the pandemic has revealed issued with regards to the design of the social assistance scheme, as many households in need remain outside the scheme'. According to the Government, in cooperation with the WB, the social assistance scheme will be reformed, in order to expand it to include more households in need and that the total amount of the project is expected to be EUR 47 million.

Initiative for the Social Assistance Scheme Reform

Issues with the social assistance system were observed long before the pandemic. The Sector Strategy of the Ministry of Labor and Social Welfare (MLSW) 2018–2022, approved in December 2017, had identified issues with the SAS.²⁰ According to the Strategy, the monthly value of social assistance is not adjusted to the prices, as provided by law. The monthly payment amounts are even lower than the poverty line. The social protection system is characterized by inconsistencies and inequalities between schemes in terms of adequacy of material benefits. The SAS monthly amount per person is lower compared to all other schemes.²¹

The one child under the 5 criteria for the same category of beneficiaries in particular poses a problem in covering poor households from the scheme, given that the financial situation of households worsens when children attend education. According to a UNICEF study, the highest risk of child poverty is for children where the main household income comes from social assistance (94.8%), which accounts for 16.5% of poor children and 8.5% of all children in Kosovo.²² Households from minority communities, particularly those from the Roma, Ashkali and Egyptian communities are most at risk of poverty. Despite this, the coverage of households from these communities with SAS has declined.²³

¹⁶ Government of Kosovo Decision No. 01/19. March 30, 2020. Source: <https://bit.ly/37MaUqe>

¹⁷ Government of Kosovo Decision No. 01/23. August 13, 2020 Source: <https://bit.ly/3s0x8vw>

¹⁸ GAP Institute Economic Recovery Program and Law. March 2021: Source: <https://bit.ly/37Jv6ZT>

¹⁹ Government of Kosovo Decision No. 13/19. July 14, 2017 Source: <https://bit.ly/3vlWeHc>

²⁰ Ministry of Labor and Social Welfare (merged with the Ministry of Finance, Labor and Transfers since 2021). Sector Strategy 2018–2022. Source: <https://bit.ly/3EZx7Zl>

²¹ Ibid.

²² UNICEF Program in Kosovo. Child Poverty in Kosovo. May 2010

²³ Ministry of Labor and Social Welfare (merged with the Ministry of Finance, Labor and Transfers since 2021). Sector Strategy 2018–2022. Source: <https://bit.ly/3EZx7Zl>

The Sector Strategy also envisaged amendments to the SAS legal framework and drafting the analysis to review the social assistance scheme.

In August 2019, MLSW published the concept-document for social assistance. According to the MLSW analysis, some of the factors that contribute to the limited impact of the SAS include:

- Limited SAS coverage, as the program covers only 35% of households in the poorest quintile of the population;
- Gradual deterioration of targeting, with the distribution of around 10% of expenditures in the two richest quintiles, and selection of 68% of the poor in the poorest quintile in 2016;
- Issues with the implementation and administration of the legal framework due to selection criteria not being in line with the characteristics and needs of poor households in Kosovo;
- Insufficiency of the SAS monthly amount to meet the basic needs of beneficiaries, especially for larger families, as well as the low value of the package of benefits and exemptions to which the SAS beneficiaries are entitled; and
- Lack of coordination between SAS and social and employment services, and the failure of the latter to adapt to the needs and profile of SAS beneficiaries.²⁴

Most of issues with SAS result from the inadequate legal framework, budget constraints, lack of coordination, and deficiencies in institutional capacity and information technology to provide integrated SAS services.²⁵

As a way forward, the concept document envisages amendment of the Law on the Social Assistance Scheme, providing for the following measures:

- Removal of exclusion filters for poor households in the assistance application process, such as categorization of households based on ability to work, number of children of a certain age, number of dependent members, etc., namely removal of criteria for categories I and II under the current law.
- All households that consider themselves poor and which cannot meet their basic consumption needs, to have the opportunity of being selected and benefiting.
- A Means Test that calculates all members of the household and their formal income, 'monitored' in the official data system. This new means test accounts for all members of the household, including those receiving pensions and other benefits.

²⁴ Government of Kosovo Consultation platform. Concept Document on the Social Assistance Scheme. Source: <https://bit.ly/3y1fhrT>

²⁵ Ibid.

- Households with financial income for the adult equivalent above the poverty line are excluded from eligibility under SAS. The calculation of financial income will include the last six months each time the data is verified (monthly) to 'normalize' the distribution of financial income of households, i.e. not to exclude those who generate irregular income (occasional, one-off, or seasonal).
- Given the high rate of informal income in Kosovo such as remittances, formal income is not a perfect measure of the overall living conditions of households. Therefore, the beneficiary selection procedure involves the Proxy Means Test (PMT) as the second beneficiary targeting step. The PMT assigns a score to each household based on asset ownership, housing conditions, and a number of poverty-related demographic characteristics.
- New method of calculating the SAS monthly benefit amount, in order to increase the level in line with the size of the household. This option envisages the use of optimal equivalence scales, which are calculated by simulating different combinations of adult and child quotients, to achieve a greater reduction in poverty. The child allowance was an additional option to the monthly amount, of 10 Euro per month for each child under 18 years of age.
- In addition to the monetary benefit – the monthly SAS amount and child allowances – SAS beneficiaries will be entitled to a number of other benefits and exemptions, including: i) subsidies for a certain amount of electricity consumption; ii) subsidies for water and district heating costs; iii) exemption from payment of health insurance premiums, co-payments, and other payments for health care services; iv) exemption from the payment of textbooks for children in primary and secondary education; v) exemption from the payment of tuition for students attending higher education in public universities in the country; (vi) exemption from payment of other utilities, and (vii) exemption from payment of the municipal administration tax.
- Extension of the re-application period to one year compared to six months as is currently the case for Category II of the SAS.
- All persons of working age, 18–64 years old who are able to work will be obliged to register at the Employment Offices. Compared to the current law, the new law provides for the removal of barriers to employment or participation in active measures, including vocational training. SAS beneficiaries who participate in public work programs, vocational training, internships, payroll subsidies, or other government employment programs under the new law will continue to receive SAS benefits for a certain period of time, depending on the salary level and the program in which they are enrolled.
- Stricter sanctions and enforcement for SAS beneficiaries who refuse to participate in active labor market measures or employment services;²⁶

26 Option 3 of the Concept Document on the Social Assistance Scheme. Source: <https://bit.ly/3y1fhrT>

In order to simplify the procedures of the administration and implementation of the new SAS law, improve targeting and verification, and harmonize with other benefits and services with the overall aim of providing integrated services, a Unified Social Registry will be developed. The latter envisages an integrated link between the new SAS module and other systems, such as the civil registry, vehicle registry, agricultural grants and subsidies, data in the field of education and health, social services, employment services, etc. To allow for the implementation of all envisaged reforms, significant investments are foreseen in capacity building of the SAS Division, Control and Supervision Unit, as well as the Centers for Social Work (CSW).

If the new law is approved with these options, it is expected that:

- Poverty will be reduced from 16.3% to 11.5%;
- Poverty gap will be reduced from 4.8% to 2.5%;
- Targeting accuracy would increase from 64% in the current scheme to 68%;
- Coverage would increase from 26% to 44%;
- Benefit level adequacy would increase from 39% to 63%;
- The number of beneficiaries would increase from 106,416 to 167,766 persons;
- The number of children under the age of 18 who benefit from allowances would increase from 55,285 to 68,521;

Spending in SAS would increase by EUR 18 million per year, from 32 million to 50 million. Of EUR 18 million additional expenditures per year, 10 million will be allocated for child allowances, and 8 million for SAS reforms which will result in an increase in monthly benefits for larger households as well as an increase in the number of beneficiaries.²⁷

However, the new law on SAS reform is yet to be approved. The draft-law was under the legislative program for 2021 but has not been approved by the government. The draft-law is also part of the legislative program of 2022 and is expected to be approved by the government at the end of November.²⁸

²⁷ Ibid.

²⁸ Government of Kosovo Legislative Program for 2022. Source: <https://bit.ly/3MCwVpX>

World Bank loan

To reform the social assistance scheme, the Government has requested financial support and expertise from WB. The soft loan, approved by the World Bank Board of Directors on September 29, 2021, has not yet been ratified by the Assembly, after two attempts.

The reasoning of the Parliamentary Caucus of the Democratic League of Kosovo (LDK), which opposed the ratification of the agreement, was that EUR 41 million out of the total 47 million are expected to be used as direct financial assistance to SAS beneficiaries.²⁹ According to the MPs who have refused the approval of the loan, Kosovo should not make it a practice of obtaining loans for the payment of social schemes. Opposition MPs are also in favor of reforming the SAS.

According to the Financial Impact Assessment (FIA) of MFLT, the EUR 47 million loan is expected to be disbursed by 2025, according to the breakdown in the table below.³⁰

Tabela 2. Breakdown of the EUR 47 million loan by year

Expenditures Category	2022	2023	2024	2025	Total
Goods and services	800.000	800.000	750.000	-	2,350,000
Subsidies and transfers	7,325,000	10,275,000	11,150,000	15,000,000	43,750,000
Capital expenditures	270.000	530.000	100.000	-	900.000
Total	8,395,000	11,605,000	12,000,000	15,000,000	47,000,000

FIA states that the agreement will not have additional costs beyond EUR 47 million. However, according to the Financing Agreement, the International Development Association agrees to give the Government of Kosovo a loan, which is considered as Concessional Financing for the purposes of 'General Conditions', in the amount of EUR 47 million, according to the loan repayment plan in the following table.³¹

Tabela 3. Loan repayment plan

Payment deadline (every May 15 and November 15)	The principal amount of the loan repaid
Starting at November 15, 2026 and including May 15, 2046	1.65%
Starting at November 15, 2046 and including May 15, 2051	3.40%

Following the request of GAP Institute to MFLT for information regarding the real cost of the loan, MFLT sent a new calculation. According to estimates, by 2051, Kosovo would have returned EUR 8.8 million in interest. For the first 20 years, after a five-year grace period, starting in 2026, Kosovo will repay 1.65% of the loan amount, namely the principal payment, in the amount of EUR 1,551,000 per year (total EUR 31,020,000). Whereas in the last five years, starting in 2046, it will repay 3.4% of the loan amount, namely the principal payment, in the amount of EUR 3,196,000 per year (total EUR 15,980,000). Thus, for the EUR 47 million loan, Kosovo will repay a total of EUR 55.8 million by 2051. These calculations include the commitment fee on the non-withdrawn financing balance, as well as the service fee and the interest rate on the loan balance withdrawn, as provided in the Financing Agreement.

²⁹ Assembly of Kosovo. Transcript of the plenary session of January 20, 2022. Source: <https://bit.ly/3MyX496>

³⁰ Assembly of Kosovo. FIA of the draft-law. Source: <https://bit.ly/3vW6vcl>

³¹ Assembly of Kosovo. Financing agreement. Source: <https://bit.ly/38A33fa>

Conclusion

In this policy brief, GAP Institute has described the history of the Social Assistance Scheme as one of the only schemes which takes into account the poverty of its beneficiaries. There have been ongoing efforts to reform SAS in order to include more poor households and for the monthly payments to be higher than the poverty line. However, such situation analysis and legal initiatives failed to receive final approval from the Government and the Assembly of Kosovo.

The health crisis caused by the Covid-19 pandemic and rising consumer prices has led to a reversal of the declining poverty rate in recent years, and recent World Bank data show an increase of the poverty rate in Kosovo. Thus, the Government of Kosovo requested a loan from the WB for the SAS reform. However, the loan also includes social transfers to beneficiary households, which fact led to the failure of the Assembly of Kosovo to ratify the agreement, twice. Despite the fact that the Assembly has twice rejected this agreement, the Government has not given up on its approval in the Assembly.

GAP Institute estimates that obtaining a loan of around EUR 43 million to pay for part of transfers to households under the Scheme is financially unnecessary and may serve as a negative future precedent. Any comparison of this situation with the time of the Covid-19 pandemic, when the government had obtained loans of a similar nature to cover either the payment of pensions or other support measures, is not valid as at the time the government was facing a sharp decline in budget revenues and increase in expenditures for the management of the pandemic. Currently, the rising prices have led to an increase in government revenues, as the government has not envisaged any temporary suspension or reduction of taxes or excises. Thus, the Government collected sufficient revenues to finance the SAS reform with around EUR 12 to 15 million in additional funding per year, over the next four years, without the need for a WB loan. This is evidenced by the April decision of the Government of Kosovo to allocate subsidies of EUR 100 to all beneficiaries of social schemes, all students and all employees who receive a salary under EUR 1,000. A total of EUR 100 million have been committed.³²

In order to accelerate the SAS reform and approve the new Law on SAS, the government should give up on insisting to ratify the loan agreement with WB, or modify the agreement by receiving a loan and expertise only for technical assistance, directly related with reforms, rather than social transfers. Conversely, it could translate into a harmful practice in the future, given the budgetary pressures as a result of budget increases for social schemes and demands for higher wages in the public sector.

³² Office of the Prime Minister. Over EUR 100 million in support for citizens. 12 April 2022. Source: <https://bit.ly/3H717YV>



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