

Assessment of the Employment Strategy: the need for a concrete strategy

I. EXECUTIVE SUMMARY

The Employment Strategy 2010-2012 was a document of the Government of Kosovo aimed at creating jobs through investments in three areas: improving investment climate, formal education and professional training of human capital and modernizing institutions of labor market. Although all three of these are mentioned in the strategy as long term challenges, the timeframe of the strategy was only three years. Four years following the adoption of this strategy, GAP Institute analyzed its efficiency in improving the employment environment in the country. The analysis concluded that: the strategy was very general; it lacked clear and measurable objectives; it did not mention mechanisms to create long term jobs; and, also the strategy did not contain any stimulus financial package to assist expansion of small and medium enterprises and pulling businesses from informal economy to a formal one. Therefore, GAP Institute suggests that the Government of Kosovo conducts a detailed assessment on the effects of the strategy, and develop a new long term strategy, with clear objectives on the number of new jobs that are planned to be created over the years to come. The new strategy should also contain financial incentives to establish new businesses and expand the existing ones.

II. INTRODUCTION

Employment and unemployment are the two key characteristics of the labor market. Although they are interrelated, this does not mean that reduction of employment automatically leads to increase of unemployment in the same rate, or the opposite, that increasing the rate of employment leads to reduction of the unemployment rate¹. As Lyuben Tomew explains, this happens because the rate of unemployment and employment is measured in different ways. The employment rate means the rate of employment in comparison with the total number of population who has the right to work, whereas the unemployment rate means the proportion of unemployed people among the (economically active) labor force¹. He adds that employment may happen through establishing working relations, through self-employment and through involvement in a family business.

According to Tomew, employment policies are divided in two types of policies: passive and active. Passive policies aim at ensuring a minimal living standard for the unemployed. This means allocating a certain amount of funds to cover the cost of living for those persons that are unemployed until they find work. The criteria to benefit from such a financial assistance should be strict and well regulated. Active policies, on the other hand, aim at activating employment by preserving existing jobs, as well as encouraging creation of new jobs or through self-employment. Active policies are implemented in different forms: subsidized employment – when governmental employment offices employ people in public programs; contractual relations – when the government signs a contract with the employer who provides work; training programs – when employees are offered training programs to improve their skills, etc.

The labor market and employment in Kosovo are characterized with a high level of unemployment (30.9%), with a low level of employment (25.5%), with a high proportion of the population of working age but who are not economically active (63.1%), with a high unemployment rate amongst youth (55.3%), with a very low rate of employed women (10.7%),² and with long term unemployment where 90% of unemployed people are registered as being long term unemployed (over 12 months)³.

¹ Tomoev, L. & Meinardus, M., (2012). Employment Policies in South-East Europe - Common Challenges and Different Scenarios, FES: Bulgaria

² Kosovo Agency of Statistics: Results from the Labor Force Survey 2012 in Kosovo

³ Ministry of Labor and Social Welfare: Performance Report – Work and Employment 2012

The high unemployment rate has consistently followed Kosovo after the war. To create more jobs and to decrease the high level of unemployment, in 2009, the Government of Kosovo prepared a comprehensive strategy, the Employment Strategy 2010-2012. In this 50-page document, the Government initially lists the problems associated with employment, as well as obstacles in attracting foreign investments, problems with the education system, professional and vocational training, and the conditions in centers for registering jobseekers and other elements that concern employment. In the second part, the strategy mentions some policies and measures to improve the employment environment. However, despite its title , this document does not contain concrete policies designed to create a given number of jobs during the three year period 2010-2012, or tools to support creation of these jobs. In other words, the strategy lacks clear objectives, which makes it difficult to assess its impact.

Another strategic document of the Government of Republic of Kosovo is the plan for economic development of the country. In this strategic document, known as “Action Plan of the Economic Vision of Kosovo 2011-2014”, the Government aims real economic growth rate of 7-8% annually and reduction in the level of the registered unemployed approximately 8-10% per annually. Even in this strategic document, the problem does not only consist in ambitious figures, but also that it is not very specific and does not tell exactly how the economic development and creation of new jobs will be achieved.

This study aims to evaluate the impact of the Employment Strategy 2010-2012. Since most of the policies mentioned in this strategy are too general, GAP Institute analyzed only those that are measurable. The Employment Strategy was compared with the employment strategy of Albania, Macedonia and European Union. Based on best practices of other countries and specifics of Kosovo, the study offers a number of recommendations that should be considered during the drafting of the coming employment strategy.

III. CONTROVERSIAL FIGURES ON UNEMPLOYMENT

There are three state institutions that provide data on labor force in Kosovo and the employment rate. The first is the Ministry of Labor and Social Welfare (MLSW), which publishes periodic report known as “Performance Report – Work and Employment”. The second is the Kosovo Agency of Statistics (KAS), which publishes the report “Labor Force Survey”, and the third is the Kosovo Pension Savings Trust which through the annual report provides figures on active contributors and new contributors/employees. The problem with the data provided by these institutions, especially those from the MLSW and KAS, is that they differ significantly from each other. These controversial data cause problems in proposing appropriate social policies and create confusion on the real situation on the ground. This has also been criticized by the Progress Report 2013 which states that “information on labor market is scarce and patchy”⁴. However, in terms of goals both institutions, MLSW and KAS, have something in common: reduction of unemployment rate and number of registered jobseekers, which as we will see below, is a result of change in calculation methodology, rather than rapid job creation.

Kosovo Agency of Statistics – has published the Labor Force Survey since 2001, providing continuous data on the rate of employment and unemployment in Kosovo. However, the document was not published in the period 2009-2012⁵. This two-year pause highlights major differences on information regarding unemployment. Whereas KSA in 2009 estimated that the unemployment rate was 45.4%⁶, in the report for the first half of 2012, the unemployment rate fell to 35.1%⁷. Meanwhile, some months later KSA published the final report which showed that the official rate of unemployment for 2012 is 30.9%.⁸ A mathematical comparison between these figures suggests that within three years the unemployment rate fell from 45% to 30.9%!

The final report of KSA reveals two interesting findings. Firstly, the report suggests that the rate of working age population that is not

⁴ European Commission: Kosovo Progress Report 2013, p. 22

⁵ According to the Head of KSA, the survey for 2010 and 2011 was not conducted due to the lack of budget. KSA: Results from the Labor Force Survey 2012 in Kosovo, p. 4

⁶ Statistical Office of Kosovo: Results from the Labor Force Survey 2009

⁷ Kosovo Agency of Statistics: Results from the Labor Force Survey 2012 in Kosovo – Results for the first half of 2012

⁸ Kosovo Agency of Statistics: Results from the Labor Force Survey 2012 in Kosovo

economically active⁹ has reached 63.1%, which is more than twice as large as the level of the population that is economically active. 23.5% of them were not looking for a job because they believed that there are no jobs. As it can be seen from the table below, this category of people has significantly increased since 2009, which indicates that distrust in employment institutions is increasing.

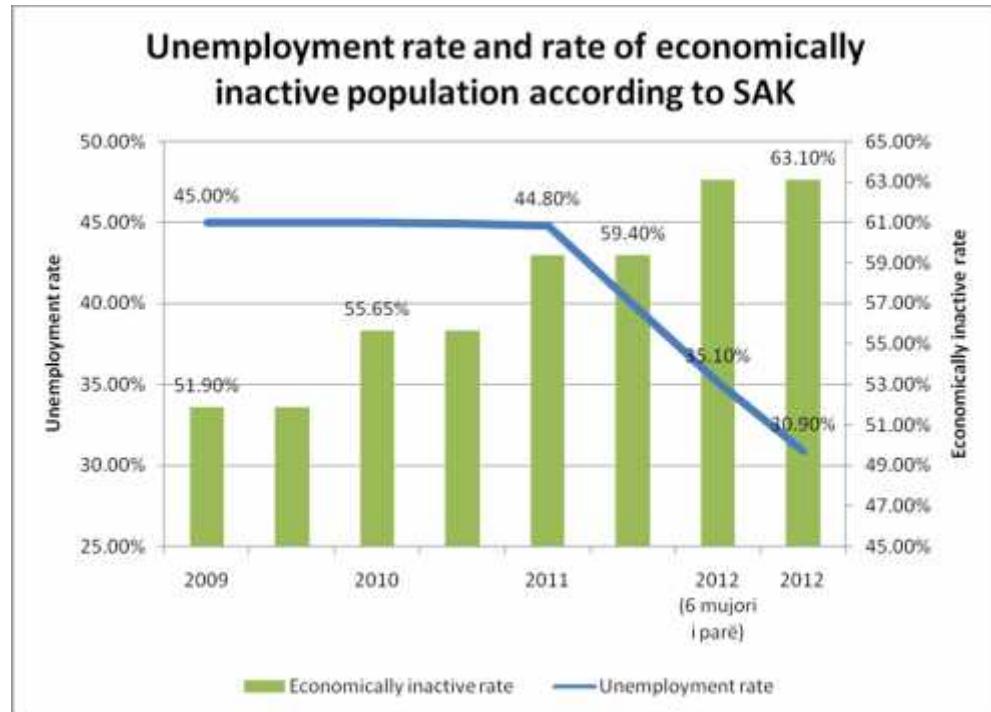


Table 1: The rate of population that are not economically active according to KSA

The second element is that the unemployment rate of 30.9% significantly varies from data derived from the census. Therefore, if one compares the data from the Labor Force Survey 2012 with the data from the Population and Household Census conducted in Kosovo in 2011, and since both publications were done by the same organization (KSA), there are significant differences. According to the data from the census from 1.252.248 residents of Kosovo above 15 years old, 508.100 of them are economically active population¹⁰. From which, 280.454 persons are employed whereas 227.464 are considered unemployed, which means that the unemployment rate was 44%.

⁹ Economically inactive population according to KSA is that category of people that are not employed and were not active in search of employment in the past four weeks and are not ready to start working within two weeks.

¹⁰ Economic active population according to KSA is that category of people that are employed and are searching for work.

The figure 30.9% was derived by KSA by changing the criteria to calculate the labor force, not because there was massive employment in the country. Therefore, unemployment rate did not fall from 44% to 30.9% within a year, because for this to happen Kosovo should have had significant economic growth which would be associated with creation of jobs, however Kosovo did not have significant economic growth in the last three years as we will explain below.

Ministry of Labor and Social Welfare – has published the “Performance Report – Work and Employment” periodically since 2003. This report inter alia provides data on the number of registered jobseekers at respective offices. According to this report, in 2011, 325.261¹¹ persons were registered as unemployed by the Public Employment Services (PES), while in 2012 the number of persons registered as unemployed was 259.341¹². This indicates that during one year, the number of unemployed decreased by 20%, or in other words 65.920 people were de-registered from the jobseekers list.

Figures show that finding a job in Kosovo is very difficult. According to the same MLSW report, over 90% of those registered as unemployed are long term unemployed, who are looking for a job for more than one year. On the other hand, during 2012, public employment services have offered only 9.434 job positions, of which 6.166 job positions were offered by the private sector. This means that a job position was available for 27 unemployed persons. However, of 9.434 job positions offered, only 7.692 persons were employed. In reality, as the table below shows, since 2009 the offered job positions were never fully filled. This may be due to inadequate qualifications of jobseekers.

¹¹ Ministry of Labor and Social Welfare: Work and Employment 2011

¹² Ministry of Labor and Social Welfare: Performance Report – Work and Employment 2012

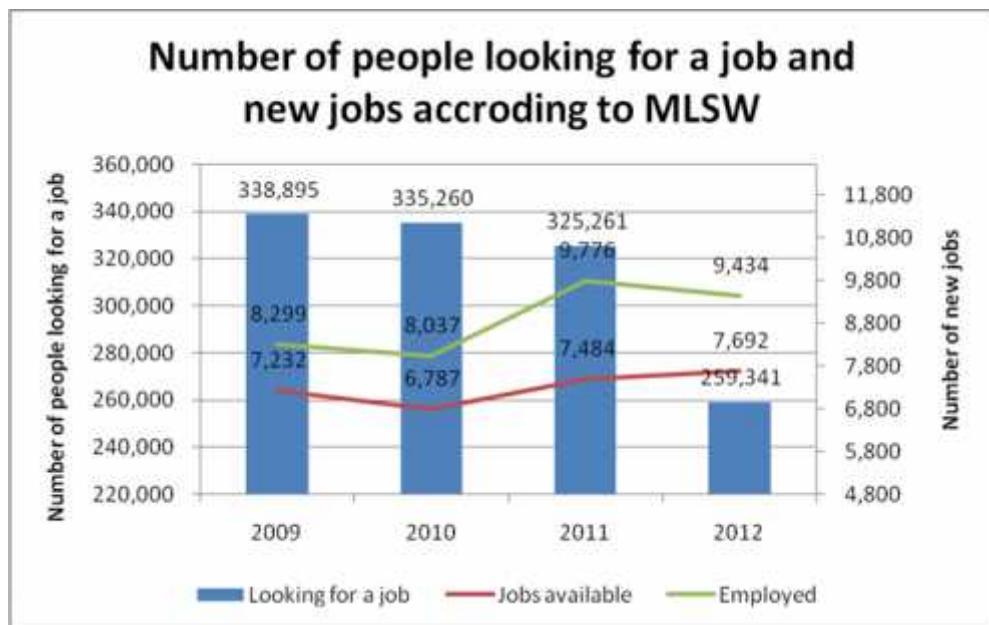


Table 2: Number of registered jobseekers and new job positions

Therefore, the removal of over 65 thousand persons from the jobseekers lists appears to be a result of reforms in the registrations system rather than their employment. As a result, many jobseekers were removed from the list after the implementation of the SIMP software, which updates the jobseekers list. According to new rules, if the person who is registered as a jobseeker does not confirm his status every six months is automatically removed from the list and is considered as a passive jobseeker¹³.

Data from the Trust – are another source to calculate the approximate number of employment within a year, although due to the high level of informality in Kosovo – according to MLSW around 30% of businesses in Kosovo operate in informal economy¹⁴ - it is difficult to know the exact number of persons that are employed every year. However, the data from the Kosovo Pension Savings Trust offer a possibility to look how many new contribution payers are added every year, although the Trust itself warns that the data does not reflect a realistic view on employment in Kosovo, due to informality¹⁵. Every employed person in Kosovo is legally obliged to contribute in the pension saving fund that is managed by the Trust. During 2012, the number of active contributors in Trust was

¹³ Discussion with Mr. Hafiz Leka from MLSW on 19.09.2013

¹⁴ Webpage of the Ministry of Labor and Social Welfare, accessed on 15 August 2013, <http://mpms.rks-gov.net/sq-al/departmentet/departamentipun%C3%A8sdhepun%C3%ABsimit/divizioniipun%C3%ABsimit.aspx>

¹⁵ Kosovo Pension Savings Trust: Annual Report 2012, p.24

266.026 persons, that included employed, self-employed and both. It is worth mentioning that there were 9.879 more contributors in 2012 compared with the previous year, but there is no data to conclude that this increase is a result of increased employment, be that seasonal or otherwise, or because of the decrease in informality¹⁶.

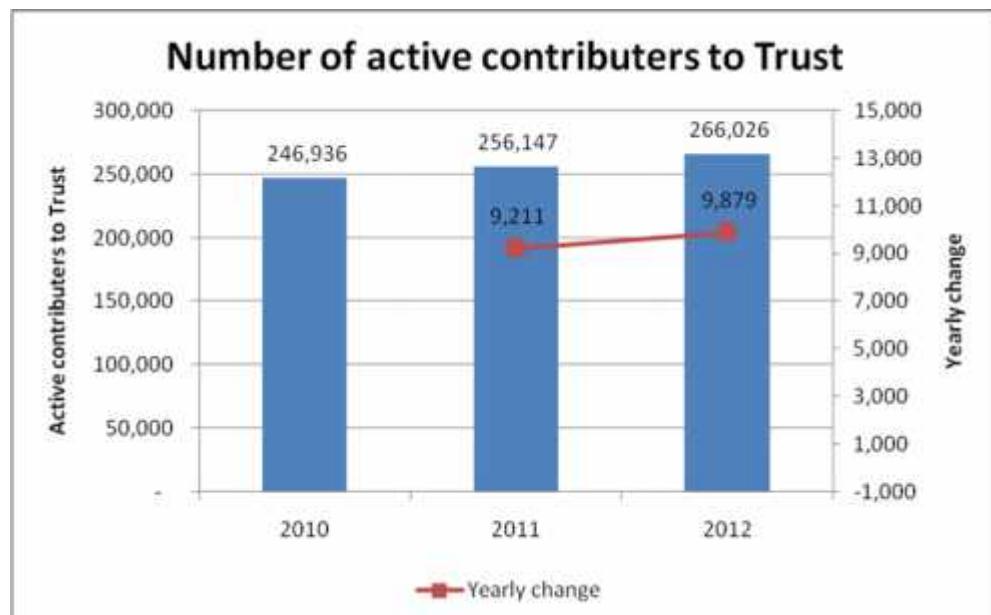


Table 3: Number of active contributors and new contributors in the Trust

However, based on the data from Public Employment Service and the data from the Trust, it results that no more than 10.000 people were employed in Kosovo during 2012. In Kosovo's case, the creation of no more than 10.000 jobs per annum is insufficient to reduce the high level of unemployment.

¹⁶ Ibid. f.26

IV. GOVERNMENTAL STRATEGIES ON EMPLOYMENT

The Government of the Republic of Kosovo drafted two strategies for economic development of the country and for increasing employment rate. The strategic document known as “Action Plan of the Economic Vision of Kosovo 2011-2013”, foresees real economic growth rate of 7-8% annually and reduction in the level of the registered unemployed approximately 8-10%. This document contains five pillars in which the Government will base its actions in order to reach the intended economic growth:

- a) Maintaining Macro-Fiscal Sustainability;
- b) Investments, Investment Environment, and Private Sector Support;
- c) Development of Public Infrastructure;
- d) Revitalization of Agriculture sector;
- e) Human Capital Development.

In a brief assessment, it can be said that there was no economic growth of 7-8%, the figures envisaged by the Government in this document. According to data from the Central Bank of Kosovo (CBK), the annual economic growth has not reached even half the foreseen percentage. In the quarterly report of economic assessment, CBK shows that real growth of GDP for 2012 was 2.9%¹⁷, whereas according to World Bank real growth for 2012 was 3.8%, which nevertheless is far from Government’s aim. Even the Progress Report 2013 estimates that economic growth has decreased and remains weak. However the reduction of the level of registered unemployed around 8-10% can be considered completed, even to a degree of 20%, but only by removing over 65 thousand persons from the list, as a result of updating the list of jobseekers.

Although this study is limited to analyzing the “Employment Strategy 2010-2012”, it can be said that the objectives of these two strategies are interrelated; therefore the failure to implement one strategy may have a negative impact on the other.

The other strategic document of the Government of the Republic of Kosovo, the “Employment Strategy 2010-2012”, was in December 23rd, 2009¹⁸. Five ministries and the Office of Prime Minister were involved to manage this strategy, and implementing the related policies involved a preliminary cost of around 104 million Euros.

¹⁷ Central Bank of Kosovo: Quarterly Assessment of Economy, No.2, Quarterly 1/2013, http://www.bqk-kos.org/repository/docs/2013/BQK_TM1%202013.pdf

¹⁸ For more on this decision see the webpage of GAP Monitor of GAP Institute, <http://gapmonitor.org/?id=2&n=267>

In this strategy, the Government provides an overview of the labor market, provides data on the rate of employment and unemployment, as well as it mentions the main problems of the labor market in the country. The main part of this document, or the strategy itself on creation of jobs, contains three development policies:

- a) Improving investment climate and reducing business costs, encouraging opening of new businesses and expansion;
- b) Developing human capital through formal education and professional training;
- c) Improving the functioning of labor market.

These are the three long term policies that according to the Government would lead to improving the employment environment in the country. However, to create jobs as fast as possible, this strategy mentions two plans, short term and medium term. According to the short term plan, the Government would expand public investments and public works programs, where with public investments it means building large infrastructure projects and with public works it means having public projects in a local level. In the medium term, the strategy aims to create jobs by reforming energy and mining sectors, and by promoting development of enterprises.

V. KEY SHORTCOMINGS OF THE STRATEGY

Before we analyze the three development policies of the strategy, it should be noted that the employment strategy has at least four shortcomings.

It does not contain measurable objectives – The first shortcoming of this strategy is that both in the short term and medium term plans, it does not mention any figures about the jobs that it seeks to create each year. However, in general it mentions in a footnote that to ensure that unemployment does not increase, 15.000 net jobs should be created each year by the economy. Whereas in the medium term, the strategy states that enough jobs should be created so that the net number of jobs exceeds the number of individuals entering the labor market.

On the other hand, the strategy specifies that within the next five years around 200.000 persons will reach working age, out of which 110.000 will enter the labor market¹⁹. This means that on average 22.000 persons per annum are added to the labor market in Kosovo. If the strategy requires that the number of created jobs exceeds the number of individuals that enter the job market, it results that starting from 2010, when the strategy began to be implemented, the Government should have created slightly more than 22.000 jobs annually, or at least 66.000 jobs for the period 2010-2012. As we stated above, this was not achieved at least in the formal economy. .

It does not explain employment projects – Apart from not being measurable in the quantitative aspect, the employment strategy, does not provide sufficient explanations. Therefore, another shortcoming is that the strategy did not explain in detail what activities will the public investments and public works project entail. However, with public investments, the strategy hints towards large infrastructure projects. The largest infrastructure project to date is the building of “Ibrahim Rugova” highway. This three year project started in April 2010 and concluded on November 2013. Although a considerable number of Kosovar workers were employed by this project²⁰, the main problem remains that this project was awarded to two foreign companies who transfer the main capital in their respective countries. Therefore, of the 800 million investments by the Government of Kosovo in this project, only a small proportion

¹⁹ Government of Republic of Kosovo: Employment Strategy 2010-2012, p.7

²⁰ According to Bechtel/Enka spokesperson 11.579 employees worked in the construction of the highway since April 2010 and their payment was based on working hours. Response provided by email to GAP Institute on 17.09.2013

was spent to hire Kosovars and to subcontract local companies. The other problem is that this presents seasonal employment, not a long term sustainable job.

However, the public works programs, although not detailed in the employment strategy, were implemented in the last three years. These projects, mainly implemented by the Ministry of Labor and Social Welfare, had an impact in seasonal employment of registered jobseekers. Below we will mention some of these projects.

One is the Employment Fair, which is a joint MLSW and Kosovo Business Alliance (KBA) project that aims to organize the fair in some towns in Kosovo where employers unfold their job offerings. From 2010 to 2012, 2.781 mediations for employment and training were completed. What is worth mentioning about this project, is that it is quite costly, and at no point the number of positions offered were filled despite the significant level of unemployment. This is an indicator that the education system in place does not prepare appropriate cadres for the demands of the labor market.

Another project is the program for employment of students in Germany. The employment usually lasts for three months and the jobs are offered in tourism, gastronomy, cleaning services, agriculture, etc. During 2010-2012, 837 students have benefited from this program. Other projects in 2012 are “Cleaning Forests” where 1.620 jobseekers were engaged, “Beautiful Kosovo” where 911 jobseekers were engaged, “Protection of Forests from Wildfire” where 61 jobseekers were engaged, etc.²¹ The advantage of these projects is that they activated a number of jobseekers, but the nature of these engagements is temporary and not sustainable and long term. In general, the Government of Kosovo and municipalities did not keep any records how many people were temporary employed from private companies when public works were being conducted.

There is no mention of agriculture – The third shortcoming of the employment strategy is that it does not mention agriculture as a possibility for development and creation of jobs, neither in the short or long term²². The strategy does not contain stimulating policies for cultivation of land or holding livestock, despite the fact that most of the families in Kosovo own land. According to KSA, out of 297.000 households in Kosovo, 195.124 own land. Out of which, 61% do not cultivate land at all. Besides that they do not cultivate land, the

²¹ See Work and Employment Reports for 2012, 2011 and 2010, MLSW MPMS

²² Revitalization of agriculture sector is mentioned in the Economic Vision of Kosovo but not in Employment Strategy

majority do not have livestock. Only 30% of households have livestock (cows, sheep, chickens, etc.)²³. Around 50% of the population lives in rural areas, and if they would invest in agriculture it would have a positive impact in reducing unemployment.

Lack of financial stimulus mechanisms- The fourth shortcoming of the strategy is that it does not provide any mechanism to stimulate self-employment; it does not provide for grants in establishment of expanding small businesses; it does not contain financial incentives to increase the number of employees in medium and large enterprises; there are no incentives to hire vulnerable groups such as the RAE community, families of martyrs, and women in general; nor there are incentives to provide training and internships for jobseekers and does not promote transitioning of companies from informal to a formal economy. An employment strategy, as we will see below in the examples from countries in the region, should offer financial incentives or other fiscal benefits for all private companies that would assist in increasing employment in a country with both a high rate of unemployment and economic inactivity.

²³ Kosovo Agency of Statistics: Population and Household Census in Kosovo 2011 – Final Report

VI. ASSESSMENT OF THE EMPLOYMENT STRATEGY

The employment strategy concludes that creation of jobs presents a long term challenge. However, with the goal of overcoming this challenge the strategy envisages implementation of policies directed towards improvement of investment climate, improvement of the quality in education and professional training, as well as improvements in overall functioning of labor related institutions. Below, we will asses these three development policies.

Policies for improving the investment climate and enabling start ups to expand their businesses – this part of the strategy outlines five problems that need to be addressed in order to improve the investment climate: a) investments in business infrastructure; b) access to finances and the financing cost; c) improvement of the legal and regulatory framework for businesses; c)insufficient market information and weak basis of skills among small businesses; d) strengthening institutional capacities.

Ministry of Trade and Industry (MTI) has undertaken a set of measures for improving policies and legislation related to development of small and medium enterprises. In this regard, the Law on Economic Zones and the Law for support to Small and Medium Enterprises (SME) were amended. In addition, a Strategy for Development of SME has been developed as a strategic document²⁴. The number of business in the Business Park in Drenas has increased and a new economic zone has been created, namely the “Business Park in Mitrovica”.

A research conducted by the MTI revealed that some of the main problems of the SME to access finances include²⁵:

- a) Failure to present well planned proposals
- b) Keeping of dual financial registers as a tendency to avoid taxes
- c) Lack of any collateral other than their personal apartments
- d) Failure to create an agency for collecting bank debts
- e) High interest rates

When talking about interest rates, Kosovo has the highest margin of interest (rates in loans, minus loans in deposits) in the region²⁶.

²⁴ Ministry of Trade and Industry: Annual report 2012

²⁵ Access to finance, Ministry of Trade and Industry, September 2012.

http://www.smallbusinessdays.com/images/uploads/28.09.2012_Access_to_finance.pdf

²⁶ GAP Institute, Bankometr No. 8, June 2013

Based on the statistics of the CBK, effective average interest norm in December 2012 was 12.7%, whereas the margin of interest 9.1%. During 2012, 1.2 billion Euro were issued as loans for enterprises, but the credit growth rate in relation with this sector decreased from 8% to 4%. The decrease occurred despite the fact that the demand from SME-s increased.²⁷

Membership of Kosovo in the European Bank for Reconstruction and Development (EBRD) in December 2012, presents a positive development with regard to opportunities of private enterprises to access finances. To date, EBRD invested around 70 million Euros in Kosovo. Forms of financing from EBRD include loans, technical assistance and participation with capital. It is important to note that 90% of EBRD investments in Kosovo were directed to the private sector.

However, unfair competition between small enterprises remains a major problem, as only a limited number of them pay taxes. In 2011, out of 100.770 enterprises registered in Kosovo, only 18.170 disclosed their taxes in the Tax Administration of Kosovo (TAK).²⁸ This shows that 82% of the enterprises did not pay taxes. 98.4% of companies are registered as micro-enterprises with 1-9 employees. 1.4% of companies have between 10-49 employees, whereas only 0.2% of medium companies have between 50-249 employees.²⁹

Another problem is the radical decrease of Foreign Direct Investments (FDI) in 2012. The FDIs in Kosovo for 2012 were 232 million euro, or 41.2% lower than in 2011 when the FDIs were up to 394 million euro. The majority of FDIs in 2012 came from Turkey, whereas the main sectors where these investments were directed include real estate 93%), construction (28%), production (12%), financial sector (10%), transport and telecommunication (7.9%).³⁰

According to the World Bank report 'Doing Business in Kosovo 2014), Kosovo has made progress in removing barriers to doing business. Kosovo was ranked 86th in the list of 189 states. The greatest progress was made in easing opening of businesses, obtaining construction license and property registration. As a result

²⁷ Central Bank of Kosovo: Report on Financial 2012, <http://www.bqk-kos.org/repository/docs/2012/Raporti%20i%20Stabilitetit%20Financiar.pdf>

²⁸ Ministry of Trade and Industry: Strategy for private sector development 2013-2017, [http://www.mti-ks.org/repository/docs/2013_MTI_Strategjia_ZHSP_Shq_\(2\)_806808.pdf](http://www.mti-ks.org/repository/docs/2013_MTI_Strategjia_ZHSP_Shq_(2)_806808.pdf)

³⁰ Central Bank of Kosovo: Annual Report, 2012, p. 81

³⁰ Central Bank of Kosovo: Annual Report, 2012, p. 81

of these reforms, to date, 26 "one-stop-shops" were established throughout municipalities of Kosovo.³¹

Measures related to policies on education, training and skills – according to the strategy, professional education and training intends to build schools of competence, expand education and training opportunities for adults, continued assessment of the quality and accreditation of higher education institutions.

Several schools of competence were built over the past three years, although the strategy does not specify in which municipalities they will be built. Schools built so far and those under construction were co-financed by the Ministry of Education, Science and Technology and foreign embassies in Kosovo. The government of Norwegian Kingdom alone co-financed construction of two such schools, in Malisheva and Skenderaj. Although the secondary professional school in Skenderaj is considered to be among the most modern schools in the region only 364 students are enrolled despite the capacity for 850 students.³²

Success was also marked with regard to approval of two laws related to this sphere, namely the Law on Education and Training for Adults and the Law for Education and Professional Training. In terms of accreditation, a large number of high education institutions were assessed and accredited for a five year period, namely until 2018.

However, from the perspective of budget allocation, investment in education has not been a priority for the Government of the Republic of Kosovo in the last three years. A review of public investments in education (excluding grants from donors) shows that only 2% of capital investments in 2012 were directed in education.³³ The chart below also shows that the overall budget for 2011 was significantly increased, but this was due to increase of salaries for teachers, rather than an investment or a serious plan for education.

³¹ World Bank: Doing Business 2014, Economy Profile: Kosovo, <http://www.doingbusiness.org/data/exploreeconomies/~/media/giawb/doing%20business/documents/profiles/country/KSV.pdf?ver=2>

³² Avdyl Beqiri, "Modern School with few students", Gazeta Jeta në Kosovë, <http://gazetajnk.com/?cid=1,1018,1599>

³³ Ministry of Finance: Financial Report on the Budget of the Republic of Kosovo, 2012, 2011, 2010

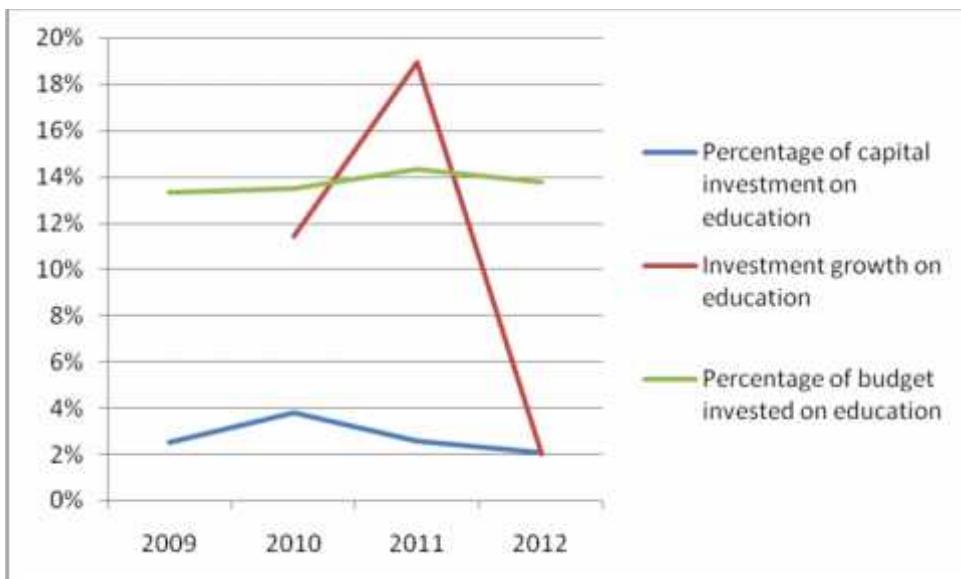


Figure 1: Trend of expenditure in education

Measures related to policies of labor institutions – Include reforms and modernization of public employment services, establishment of a credible information system for the national labor market, support for migration of labor force, expansion of programs for the active labor market, protection of employment and transition of individuals from social assistance to jobs.

Implementation of the Information System for Employment Management (ISEM), which allows for management of data, related to employment, job seekers, employees, and entities that provide training, helped to a significant extent in the modernization of employment services. Introduction of this system was outlined as a positive development in the EC Progress Report for 2013. Although the strategy envisages that the system should provide for online employment services, practically it is not there yet.

Reforming of public employment services (PES) envisages that PES should be transformed from an administrative body into a national service for employment, namely the National Agency for Employment. To date this agency has not been established, and the Law on Employment Agency has not been approved by the Assembly either. Transition of individuals from social assistance schemes to jobs is another objective of the strategy. The number of families benefiting from the social assistance scheme varies each year.

In January 2012, 35.159 families throughout Kosovo benefited from social assistance scheme, whereas by December 2012 their number

decreased to 31.111 families.³⁴ The situation was similar in the previous year, 2011. Such decrease is a result of engagement of family members in jobs created through projects implemented by the Ministry of Labor and Social Welfare throughout Kosovo. These families remain out of the social assistance scheme for as long as the project lasts, but once the project is over they find themselves again in the list of social assistance beneficiaries.³⁵ Therefore, as these projects are not permanent, families remain out of social assistance scheme only temporarily. As shown in the table below, since 2009 the number of families benefiting from the social assistance scheme remains more or less the same.

Table 4: Number of families benefiting from the social assistance scheme according to Kosovo Agency for Statistics

Year Region	2009	2010	2011	2012³⁶
Prishtina	9.261	9.865	9.559	7.903
Gjilan	6.189	6.047	5.992	5.878
Prizren	3.745	4.690	4.706	3.500
Peja	6.737	6.093	5.842	5.985
Mitrovica	9.722	9.096	8.768	7.845
Total:	35.656	35.791	34.867	31.111

³⁴ Kosovo Agency for Statistics: Social Welfare Statistics2012, http://esk.rks-gov.net/statistikat-e-miregenies-/publikimet/doc_view/987-statistikat-e-miregenies-sociale-2012?tmpl=component&format=raw

³⁵ Ministry of Labor and Social Welfare: MLSW activities for 2011, http://mpms.rks-gov.net/Portals/0/Librat/Broshura_al_2011.pdf

³⁶ These data present number of families benefiting from social assistance scheme for December 2012, which differs significantly from other months.

VII. EXAMPLES OF EMPLOYMENT STRATEGIES

As unemployment presents a major problem and its solution requires a systematic and concrete approach, other countries in the region have also developed employment strategies. Below we will provide an overview of main elements of strategic documents for employments in Albania, Macedonia and the European Union.

Albania: Strategy for Sectoral Employment 2007-2013 – The main objective of the strategy is to decrease the level of unemployment by 2013, at the level of unemployment in the EU. In order to reach this goal the strategy envisages to decrease the level of unemployment 0.3% annually, to increase the employment by 5% each year and to ensure that at least 20% of the unemployed are engaged in active programs that trains them for certain jobs.

As part of the active programs for employment the Strategy envisaged improvement of the quality of services provided by the National Employment Service (NES). The NES is primary institution responsible to implement employment policies, and currently has 36 employment offices and 372 staff members. In this regard the strategy aims to increase the number of staff providing services for unemployed from 47% to 55 %. In the EU member states this percentage varies from 62-65%.³⁷ Another goal is to build a modern system for employment services. Fourteen (14) private employment agencies operate in Albania, mainly providing services that assess demands and application for employment domestically and internationally. The strategy also aims to improve cooperation between private agencies and the public employment service.

The strategy envisages implementation of five state programs for encouraging employment, in accordance with the scheme below:

1. The program for encouraging employment of job seekers: Employers that employ job seekers temporarily (3-6 months), can benefit monthly financing of their salaries up to 100% of the minimum wage, including expenditures for social security of beneficiaries. If the beneficiary is employed for a one-year period with a regular contract, the employer is entitled to financial financing equal to a minimum wage.

³⁷ Republic of Albania – Ministry of Labor, Social Issues and Equal Opportunities: Strategy for Sectoral Employment 2007-2013.
http://www.dsdc.gov.al/dsdc/pub/strategja_punesim_162_1.pdf

2. The program for encouraging employment through development on the job: this program support employers financially to provide training to beneficiaries and employ some of the trained job seekers for at least a year. The government supports the employer financially by covering the salary and social security contributions for the nine-month training period. Following the completion of training program, the employer is obliged to train 40% of the trainees.
3. The program for encouraging employment through institutional development: Employment offices organize and provide training for beneficiaries from companies that guarantee employment following the completion of the training. Beneficiaries that refuse to attend training course are removed from the job seekers lists and social assistance received due to the terminated status as unemployed.
4. The program for encouraging employment of women jobseekers which aims to integrate in the labor market marginalized women such as Roma, victims of trafficking, elder and handicapped women. The program lasts between 1 and 3 years. In year one, employer can benefit 75% financing for social security contributions and four minimum salaries. In the second year, employers receive financing for 85% of contributions for social security and six minimal salaries and in the third year they receive financing for 100% of contributions for social security and 8 minimal salaries.
5. The program for encouraging employment of job seekers that graduated domestically or internationally, through their inclusion in fellowship/internship programs in public or private institutions/enterprises. Public employers are obliged to receive these job seekers, whereas the number is determined in relation to the number of overall staff, namely 1 fellow/intern for 50 staff. For private employers, that engages these job seekers, as part of this program, receive financing by the employment office, at the level of 100% of social assistance for unemployment, for each month of the internship program.

The Government in cooperation with international donors will allocate separate budget for each program, whereas the amount allocated will depend on the efficiency of the programs, based on the assessment that will be conducted at the end of each year. Further, the Strategy for Sectoral Employment notes that employment of

sensitive groups such as Roma community, women, immigrants etc. The strategy also seeks to improve the climate for businesses and development of small and medium enterprises, by easing the fiscal burden including:

- Reducing the corporate profit tax from 23% to 20%;
- Reducing the simplified profit tax for small businesses from 3% to 1.5% and reducing domestic tax for small business for 50%;
- Removing the value added tax for books in printing houses and for advertisements;
- Reducing the price of energy for businesses for around 30%.

Macedonia: National Strategy for Employment 2011-2015

– this strategy presents the policies of the labor market which are harmonized with the European Economic Strategy ‘Europe 2020’, and aim at providing specific measures that need to be undertaken in order to reduce structured unemployment, development of a labor force that meets demands of the market, adoption of a system of education and training and combating informal economy.³⁸ More concretely the strategy aims to accomplish its objectives through the following programs:

- Additional employment program with a grant of 1.500 Euro for every new unemployed person, or a total of 450 employments for the period 2011-2015 in companies registered with self-employment mechanism;
- The program for employment preparation through trainings, re-qualification or additional qualification for unemployed persons, in order to equip them with knowledge and skills;
- Training program for certain professions for which there are insufficient cadres in the labor market. A pilot program was implemented in 2011, and involved training of 800 individuals for needs of the textile industry;
- The project “additional 1000 employments” through provision of business loans or grants with self-employment measures. More specifically, employment of any person will be credited with a fund of 3.000 Euros for 4 years, include year one without payment and three years as the period for returning the loans with 1% interest rate;
- The project “Self-Employment of 3.750 individuals” which includes a loan of 3.000 Euro. The return period is 4 years

³⁸ The Government of the Republic of Macedonia: Social Policies <http://vlada.mk/node/268?language=en-gb>

with 1% interest rate, whereas the first year goes without payment.

- The project “Formalizing 1250 businesses”. In order to reduce informal economy, any registered business will be supported with 3000 Euros for each job position it creates.
- The project “3750 from the idea to the self employed business with grants of 3.000 Euro”. This project aims at ensure self employment of persons under the age of 27, women victims of domestic violence, unemployed women, career soldiers that have complete the service in the Army of the Republic of Macedonia etc.
- Subsidies for employment of 150 orphans over the period 2011-2015, through financial support of 15.000 denars (243 euro) for a period of 6 months. The employer is then obliged to keep them employed for at least another 12 months;
- Subsidies for employment of 400 single parents through financial support of 15.000 denars (243 euro) for a period of 6 months. The employer is then obliged to keep them employed for at least another 12 months;
- Subsidies for employment of 600 elders aged 55-62 through financial support of 15.000 denars (243 euro) for a period of 6 months. The employer is then obliged to keep them employed for at least another 12 months;

Subsidies are also envisaged for those who have served in the army, victims of domestic violence, handicapped persons, and for opening of business incubators and modernization of employment agency. Moreover, the strategy envisaged inclusion of Roma community members through 2.400 scholarships provided to high school students from this community, and small grants of 3.000 Euros for self-employment projects.

The European Union Strategy “Europe 2020” - The European Strategy for Employment aims at creating more jobs and is based on the general strategy known as “Europe 2020”. This document includes five main objectives related to employment, innovation, education, social inclusion and energy, to be reached by 2020.³⁹ With regard to employment, the objective is to reach the scale of employment up to 75% for the group age of 20-64 years old, through the following three programs: a) youth on the move, b) the program for skills and new jobs and c) the platform against poverty and social exclusion.

³⁹ European Commission, Europe 2020: Europe’s Growth Strategy, <http://ec.europa.eu/social/main.jsp?langId=en&catId=956>

The program “youth on the move” is a symbiosis of policies on education and employment of youth. Unemployment among youth under the age of 25 reached 20%, whereas it is estimated that around 7.5 million young people (age 15-27) are unemployed and are not attending any training or education program.⁴⁰ Therefore the goal of this program is to make the education and training programs more relevant to the needs of youth, and by providing grants to enable them to travel and study in other countries. The project “Progress Microfinance” is also part of this effort, which envisaged loans under 25.000 Euros for young people to establish or expand their businesses. The loan is not provided directly to the young entrepreneurs, but allows for some selected microfinance institutions to increase the scale of loans through a) issuance of guarantees for young entrepreneurs, which means sharing the risk with the latter, and b) providing funds to increase small loans.

The program for skills and new jobs seeks to equip individuals with skills needed to be able to get jobs of today and tomorrow, implementation of reforms related to flexibility and safety in the labor market (concept “flexicurity”) and improved of quality and working conditions.⁴¹

The platform against poverty and social exclusion aims at supporting EU member states to remove over 20 million people from poverty and social exclusion. The EU considers that 24% of the overall population of the EU are at risk of poverty and social exclusion, of whom a large percentage are children, persons older than 65 years and specific groups such as Roma.⁴²

⁴⁰ For more see the European Commission Program “Youth on the Move”,
<http://ec.europa.eu/social/main.jsp?catId=950&langId=en>

⁴¹ For more see the European Commission Program “Youth on the Move”,
<http://ec.europa.eu/social/main.jsp?catId=950&langId=en>

⁴² For more see the European Commission Program “European Platform Against Poverty and Social Inclusion”, <http://ec.europa.eu/social/main.jsp?catId=961&langId=en>

VIII. THE WAY FORWARD

Given the unemployment rate of 30.9%, the level of economic non-activation of capable labor force of 63.1% and with over 250.000 job seekers, the Government of Kosovo should have a more serious and concrete plan for creating new jobs. The Employment Strategy 2010-2012 cannot serve as a good model for creating new jobs in the following years, for at least two main reasons.

First, this strategy is too general, and primarily focused on describing macroeconomic problems of Kosovo, rather than providing concrete employment policies. It mentions privatization of KEK and power plant “Kosova e Re”, construction of industrial zones, building of schools of competence, modernization of employment services and other obligations that fall under the responsibilities of at least five government ministries.

Second, this strategy and its eventual success is not measurable, as it does not provide for clear objectives with regard to the number of new jobs expected to be created during the 2010-2012 period. The Government itself did not conduct yet a detailed assessment on the impact of the Employment Strategy 2010-2012, an action that should have been undertaken.

Therefore, GAP institute recommends the following:

1. Kosovo should have a new employment strategy. The process of drafting the strategy should be led by the Ministry of Labor and Social Welfare (MLSW), and main proposed policies should fall under the responsibilities of the MLSW division for labor and employment, whereas there should be less other governmental partners. Thus, the strategy should not be a joint strategy of all five ministries, as was the case with the last strategy, for at least two reasons. First, other ministries have their own development strategies as in the case of the Ministry of Trade and Industry which recently adopted the Strategy for Private Sector Development 2013-2017; the Ministry of Education also has a Strategic Plan for Education 2011-2016, whereas the Government as a whole has its Strategy for the Economic Vision for Kosovo 2011-2014. Therefore the new employment strategy should not repeat policies that already incorporated in the abovementioned strategic documents.

Secondly, government institutions (ministries) have not shown any indicator or example of coordination or effort to come up with an adequate joint strategy. This is best indicated in the Economic

Vision of Kosovo, where despite the fact that six ministries were involved in its development, it does not serve as a guide or a foundation upon which policies for development of the country are based. As such, it would be proper to assign the MLSW to draft the new employment strategy, whereas the coordination with other ministries can be carried over through senior officials.

2. The new employment strategy should include clear and measurable objectives to increase the scale of employment and to provide plans and tools for reaching the objectives. The new strategy must include the following elements:

- The strategy should specify number of jobs it aims to create over the next years, number of trainings and professional development activities, number of businesses that will become formal (registered) and number of families that will be removed from social assistance schemes following the employment of a family member.
- The Government of Kosovo, as in the case of Albania and Macedonia should enter contractual relations with employers in order to increase the number of employees. The Government should allocate a grant within the stimulus package aimed at increasing the number of employees in very small business, as well as small and medium enterprises.
- Stimulus package must be clear, including the procedures for applying and benefiting from them. The fund for creating the stimulus package could also be achieved through a rigorous saving plan.⁴³ For example, through a 400.000 Euro grant the Government can subsidize around 220 jobs with minimal salary of 150 Euro per month, for a full year. If the fund is used to cover 50% of the minimal salary with the remaining 50% covered by the employer, the Government would create 500 new jobs.
- As in the EU project “Progress Microfinance”, the Government should create a fund through banks and microfinance institutions, which provided loans with low interest rate for establishment of small enterprises. Since the beneficiaries would return the loan gradually after the first year, the fund would be sustainable for a long time. This policy should be harmonized with the Strategy for Private Sector Development.

⁴³ In 2012, the Government of Kosovo spent 394.000 Euro on official lunches, over 214 euro in fuel for vehicles, and over 160.000 euro on mobile phone bills. For more details see GAP Institute's platform "How does the state spend our money?" <http://www.institutigap.org/spendings/?drekat-zyrtare/2012#/~/drekat-zyrtare>

gap | policybrief

- The new strategy should be more focused in programs for agriculture as a tool for creating more jobs. This should be done in coordination with the Program for Agriculture and Rural Development, implemented by the Ministry of Agriculture.

gap | policybrief

INSTITUTI PER STUDIME TE AVANCUARA



GAP Institute is a local think-tank founded in October 2007 in Kosovo. GAP's main purpose is to attract professionals by creating a professional research and development environment commonly found in similar institutions in Western countries. This will include providing Kosovars with an opportunity to research, develop, and implement projects that would strengthen Kosovo society. A priority of the Institute is to mobilize professionals to address the country's pressing economic, political and social challenges. GAP's main objectives are to bridge the gap between government and people, and to bridge the gap between problems and solutions.

Institute for Advanced Studies GAP is supported by:



This analysis was supported by:

