



FINAL REPORT

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Kosovo

How to Reduce Unemployment in Kosovo

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Disclaimer

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EXECUTIVE SUMMARY

Creating jobs will be one of the main challenges for Kosovo in the near future. It would undoubtedly improve the population's well-being and would address a major factor of social and political unrest, as massive unemployment (coupled, in the case of Kosovo, with a young population) is widely seen to be a major cause of instability.

This report is an attempt to provide an answer to a crucial question: 'How to reduce unemployment in Kosovo?' To do so, it assesses the current labour market and reviews policy options to reduce unemployment, both in the short and longer terms.

Unemployment in Kosovo: Basic Facts

Kosovo's labour market has a low labour force participation rate and a high unemployment rate. While only half of the working-age population is active, 40 percent of the labour force is unemployed.

Several groups are particularly disadvantaged within the labour market: young people and women have unemployment rates of 70 percent and 60 percent respectively.

Kosovo is "the nation of long-term unemployed" (ETF, 2006): 90 percent of the unemployed have been jobless for more than one year. If we add that 83 percent of the unemployed do not have any working experience, we can conclude that a major part of the unemployed are trapped in a vicious circle.

Kosovo's labour force is young but unskilled: more than three-quarters of the registered unemployed have less than 3 years of schooling.

Half of the employment is informal. In the formal sector, most of the employed are working in micro-enterprises (less than 10 employees).

Principal Characteristics of Kosovo's Labour Market

The current labour regulation has been implemented since the end of the war in 1999; it created a very flexible market, with few regulations and low payroll taxes.

A major part of the market itself is not formalised: only 20 percent of recruiting is done through the public employment offices system.

Main Challenges Identified and Policy Recommendations

The biggest challenge faced by Kosovo in solving the unemployment problem is job creation: this cannot be achieved without generating high levels of sustainable growth, or without aiding the private sector.

Kosovo also needs to invest massively in human capital building, particularly in developing the skills of its young labour force.

There is, finally, a crucial need for a genuine labour market information system: the current lack of reliable and robust data makes the definition and proper targeting of active labour policies very difficult.

1 INTRODUCTION

Since the end of the war in 1999, Kosovo has been administered by the United Nations. It inherited a particularly difficult economic and social situation. Kosovo was already the poorest region in the Balkans before the war and is still lagging behind (GDP per capita is estimated to be around 1100 euros per year). 37 percent of the population is estimated to be poor, and 15 percent of the population is living in extreme poverty. Kosovo performs poorly on other human development indicators like life expectancy at birth or infant mortality.

On top of this legacy, economic performance since the end of the war has been insufficient to enable Kosovo to develop. Growth has been mainly aid-driven (especially until 2002) and has not led to the much-needed large-scale creation of jobs. As a consequence, Kosovo's unemployment rate is estimated to be around 40 percent, to which a significant share of the working age population who is inactive can be added.

Creating jobs is thus one of the main challenges for Kosovo in the near future. It would undoubtedly improve the population's well-being and help to curb social and political unrest, as massive unemployment (coupled in the case of Kosovo with a young population) is well-known to be a major factor of instability.

This report attempts to answer a crucial question: how to reduce unemployment in Kosovo?

To do so, we first provide an assessment of the current situation in the labour market by analysing the main indicators and providing a synthetic description of the market's institutional framework; several reports are available but data are scarce and usually not considered as robust.

Secondly, we review policy options to reduce unemployment, both in the short and longer terms. A lot has already been written on the topic and solutions already identified. Hence, this report does not intend to "reinvent the wheel", but rather to provide a synthetic approach to the job creation issue in Kosovo. Our conclusions are in line with the views kindly expressed for this report by experts.

2 ASSESSMENT OF THE CURRENT SITUATION

2.1 Kosovo's Labour Market Profile

2.1.1 The Supply Side: Demographics and the Labour Market

Basic facts. In 2006, according to the Statistical Office of Kosovo's estimates (SOK, 2006b), Kosovo had a resident population of 2.1 million inhabitants, with the term "resident" being an important operative word, given that an estimated half a million Kosovans are living abroad (Vathi and Black 2007). The working age population (those aged between 15 and 64, WAP thereafter) represents 61 percent of the resident population, or around 1.3 million people. This is a relatively low proportion but can be easily explained by the population's age profile: about 33 percent of the Kosovans are less than 15 years old. In terms of dynamics, with an estimated annual natural growth of 1.45 percent, it can be considered that around 25,000 people are entering the working age population each year. However, this figure is expected to increase in the near future, given the aforementioned large share of the population below the age of 15.

Out of the 1.3 million people in the working age population, only 640,000 are active, giving a labour force participation rate as low as 49.2 percent. However, several groups of workers are not included in this figure (mainly the workers in the informal sector and out-of-the-market agricultural activities). According to the latest SOK's estimates (SOK 2006a), 41.4 percent of the labour force is unemployed, which represents around 270,000 people.

One can therefore describe Kosovo's labour market as follows: **a low labour force participation rate and a high unemployment rate**. If we add up the unemployed and the inactive (among the WAP), that represents around 930,000 people, almost half of the total resident population. It can also be said that 270,000 people have to generate enough income to make 2.1 million people live. However, the reality is probably less alarming than these figures suggest, given that Kosovo is supposed to have a large informal economy (see below). It also has to be noted that the situation has improved over the last few years and is still improving, as suggested by Table 1 below¹. Finally, the unemployment rate varies greatly geographically: it is 10 percentage points higher in rural areas than in cities and is higher than 60 percent in some municipalities (UNDP, 2004).

Long-term unemployment is plaguing Kosovo's labour market. The long-term unemployed represent a spectacularly high share of unemployment: about 84 percent of the unemployed have been unemployed for one year or more. This figure has to be seen in the light of another one: 83 percent of the unemployed have no working experience at all. Even if the two groups probably do not overlap perfectly, we can reasonably assume that a strong core (at least around 70 percent) of the unemployed share the two characteristics: they are long-term unemployed with no working experience.

Youth and women are particularly disadvantaged on the labour market. If we consider the 15-24 age-group only (which represents about one-third of the WAP), unemployment increases to 70.5 percent. Even more striking is the fact that among the active 15-24 year olds with no working experience, the unemployment rate is 96.3 percent. As a corollary, the youth employment rate is as low as 10.5 percent. All these figures suggest that the lack of skills is probably the main reason behind unemployment in Kosovo, and for the youth more particularly.

Women are the other highly disadvantaged group in the labour market. Only 30 percent of the female WAP are in the labour force, 60.5 percent being unemployed. If we confront these figures with those by age groups, it is clear that young women are in a particularly difficult situation: their labour force participation rate is comparable to that of the other age groups but their unemployment rate is as high as 80 percent (with an employment rate of just 5 percent). In other words, young women who choose to enter the labour market have very little chance of finding a (formal) job. The female employment rate (12 percent) appears to be particularly low when compared to other countries: the EU25 average for this indicator is 55 percent (ETF, 2006), and neighbouring countries perform better (the female employment rate in Macedonia is 28 percent).

Women's disadvantage on the labour market probably starts in school, as dropout rate at the secondary level is much higher for girls than for boys. According to the World Bank (2005), distance to school is the main factor of dropout at the secondary level, especially in rural areas. There are much less secondary schools than primary ones in these areas so students have to cover a longer distance to reach the school. It appears to be a strong disincentive to keep going to school, even stronger for girls than for boys. Henceforth, women experience a skills deficit compared to men when they enter the labour market, and this deficit would be partly reduced by policies aimed at keeping girls in school longer than today.

Employment in Kosovo is spread over numerous micro-enterprises. According to the 2005 LFS (SOK, 2006), agriculture represents around 20 percent of employment, another 20 percent are

¹ All the data in Table 1 come from SOK's annual labour force survey and are supposed to be comparable. However, it is widely considered that LFS 2001, 2002 and 2003 are poorly reliable and overestimate significantly unemployment. This explains why the drop in unemployment is so large between 2003 and 2004.

employed in the industry and the remaining 60 percent work in services (with trade alone representing 14 percent of employment).

Another breakdown provided by MLSW (2007) suggests that the private sector represents 40 percent of employment, while the public sector and socially-owned enterprises (SOEs) represent 49 percent and 5.7 percent respectively. However, employment in the public sector and SOEs is expected to decrease in the near future.

Most of employment in the private sector takes place in small or very small firms: about 23 percent of the workers are self-employed (this includes individual farmers) and 17 percent are family workers. This is in line with the structure of the private sector itself: **98 percent of the firms in Kosovo have less than 10 employees** and there are only 23 companies with 250 or more employees (Private sector development TWG, 2006).

Another feature of Kosovo's labour market is the fact that a high share of the employed do not work full-time: 28 percent of them are seasonal workers (mostly in agriculture), while 22 percent work part-time. More than a deliberate choice of reduced working-hours, these figures are certainly another indicator of the lack of full-time jobs. They also suggest that a significant share of the labour force is vulnerable.

Migration and remittances have a significant influence on the domestic labour market. Vathi and Black (2007), using data from UNFPA (2005) and the IMF (2005), estimate the number of Kosovans living abroad at about half a million. This number can be split into two groups, of roughly equal size: Kosovo Albanians living abroad, mainly in Western Europe; and other ethnic groups, mainly Kosovo Serbs living in Serbia. Migration has important consequences for the domestic labour market, as the typical migrant profile is a young male of working age leaving Kosovo to find a job in Germany or Switzerland. However, it seems that international migration of Kosovans is more and more correlated to skills, as many young Kosovans get scholarships from universities, mainly in England and in Germany. It is hard to know whether they come back at the end of their studies or whether they stay abroad in order to get a better-paid job. As pointed out by the IMF (2005), migration increases the domestic reservation wage, because wages are higher abroad but also increases remittances, which, all things being equal, tends to increase unemployment.

The informal sector is a major part of the picture. All the figures above have to be moderated by the presence of a large informal sector in Kosovo. Although no reliable figures exist, there are a few studies giving at least an idea of what the Kosovo informal sector looks like. For instance, the World Bank (2003) suggests that about half of employment in Kosovo is informal according to ILO's two main criteria (i.e. no contract was signed and the firm is unregistered), which would make for a "real" unemployment rate of about 29 percent. The proportion of youth employed in the informal sector seems to be roughly the same as for the overall WAP (Union of Independent Trade Unions, 2005). Sources of such a large informal sector are hard to identify; even though payroll taxes are low, the MLSW/ILO employers' survey suggests that 86.5 percent of the unregistered firms did not register because of fiscal requirements, and only 10 percent because of social protection obligations in the formal sector. One can also assume that the lack of incentives to formalise activities, in particular the lack of a proper business environment and difficulties to access credit, is at play in the decision to stay unregistered.

Table 1: Basic Labour Market Indicators for Kosovo

	2001			2002			2003			2004			2005		
percent	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Labour force participation rate	64.5	26.8	45.6	72.0	34.5	52.8	71.7	29.5	50.3	68.1	25.3	46.2	69.0	29.9	49.2
Youth LFP rate	46.1	29.5	37.9	49.9	39.9	44.8	51.3	33.0	42.6	44.4	23.2	33.6	42.5	28.9	35.7
Employment rate	31.1	8.1	19.6	39.4	8.8	23.8	42.8	8.3	25.3	46.8	9.9	27.9	46.4	11.9	28.9
Youth employment rate	11.3	3.8	7.6	16.1	4.1	10.0	17.5	3.1	10.7	18.7	4.1	11.3	15.4	5.6	10.5
Unemployment rate	51.8	69.9	57.1	45.2	74.5	55.0	40.3	71.9	49.7	31.5	60.7	39.7	32.9	60.5	41.4
Youth unemployment rate	75.5	87.1	80.0	67.6	89.7	77.7	65.8	90.5	74.9	57.9	82.5	66.5	63.7	80.6	70.5

Source: Annual Labour Force Surveys, Statistical Office of Kosovo

Kosovo’s labour force: young but unskilled. Employment rates broken down by educational attainment provide insight into the situation: 76.2 percent of the adult population with tertiary education is employed, compared to 14.4 percent of the population with less than secondary education. In fact, education has an impact on both labour force participation and the chances of finding a job. For instance, 75 percent of people with less than upper secondary schooling are inactive, compared with a rate of 2 percent among people with tertiary education. In the meantime, according to administrative data from MLSW, about three-quarters of the registered unemployed have three years of schooling or less.

The main issues in the education sector identified in the literature and recent reports are the lack of quality of education, difficulty in accessing secondary schooling and the lack of a proper vocational education system. Quantitative indicators of education in Kosovo are relatively good, at least for basic education: the primary school enrolment rate is above 95 percent (and equal between girls and boys) and the illiteracy rate is around 5 percent and consistently decreasing. However, dropout at secondary level is a major issue (especially for girls, whose secondary enrolment rate is slightly above 71 percent), as is access to education by the poor and people living in rural areas.

Kosovo’s labour market performs poorly by European standards. Table 2 displays basic labour market indicators for a selection of European countries. For every indicator, Kosovo is the worst performer. It also shows how big the women’s disadvantage on the labour market is in Kosovo compared to its neighbours: the female unemployment rate is three times higher in Kosovo than in Serbia, and six times higher than in Bulgaria. Comparing Kosovo’s indicators to the EU25’s also shows how far Kosovo is from converging toward EU standards. It is worth remembering that the Lisbon strategy set targets for overall and female employment rates of 70 percent and 60 percent respectively.

Table 2: Labour Market Indicators in Selected Countries (2005)

Country	Participation rate (%)		Employment rate (%)		Unemployment rate (%)	
	All	Women	All	Women	All	Women
EU25	70.4	62.6	64.1	56.5	8.9	9.8
Bulgaria	63.8	58.9	57.9	53.5	9.3	9.2
Croatia	63.3	57.1	54.8	49.0	13.4	14.3
Romania	61.8	54.9	57.8	51.8	6.5	7.1
Serbia	65.2	56.2	51.0	40.8	21.8	27.4
Kosovo	49.2	29.2	28.5	11.7	41.4	60.5

Sources: Early Warning Report 17 (UNDP, 2007a), Serbia Labour Market Assessment (World Bank, 2006)

2.1.2 The Demand Side

There is very little information on the demand side of the labour market, making it difficult to provide a detailed analysis. For instance, the LFS does not provide any data on wages or firms' needs. It only gives information on the method of job search by the unemployed, i.e. how they connect to the demand for labour. Other sources are administrative data from MLSW (on the registered unemployed) and a recent joint employers' survey by MLSW and ILO.

The labour market in Kosovo is not formal. The LFS shows that only 55 percent of the unemployed use public employment offices to look for a job; most job searching is done through non-formalised means such as asking friends, contacting employers directly or answering adverts in newspapers. Official data from MLSW provide some data on vacancies and placement. Over the 12-month period between June 2006 and June 2007, MLSW received about 7400 job offers (MLSW, 2007b), suggesting that employers, like job-seekers, make little use of the "official" market organized by MLSW. It is confirmed by the results of the MLSW/ILO employers' survey (2006): only 20 percent of employees have been recruited through public employment offices, while 46 percent have been recruited through relatives and friends. In other words, there is not only an important informal sector in the economy, but a major part of the labour market itself is informal.

Wages are low and have been stable over the last few years. Given the high labour market flexibility (see below), wages are mostly set by the market. Unfortunately, there are very few data on wages available. The latest ones (as far as we know) are from SOK's annual Household Budget Survey (HBS), used by the World Bank (2007) to build the poverty profile. The average monthly wage (in real terms) is slightly above 200 euros, with very little variation since 2002. This stability suggests stagnation in workers' productivity in the recent past.

The MLSW/ILO's employers' survey shows an average monthly wage of 227 euros for men and 207 euros for women, suggesting a male-female wage gap of around 10 percent (consistent with HBS data). This is quite low by international standards, and it is even lower when holding constant other characteristics, education level in particular (World Bank, 2003).

It also appears that **wages are significantly higher for Albanians than for Serbs** (the gap is even larger between Albanians and other minorities), almost entirely because of wage differences in the private sector, even after controlling for personal characteristics, and is thus due to non-economic factors (Baumik et al., 2006). This wage gap is the only tangible sign of a possible discrimination on the labour market along ethnic lines, as the few data available do not show any significant difference between groups in terms of employment and unemployment.

2.2 Current Policies

2.2.1 Legal and Institutional Framework

Kosovo's labour market has very few regulations and is considered to be very flexible. In particular, the low level of payroll taxes is extremely important in keeping the cost of labour down. While this may provide undeniable benefits on the medium-to long term, ETF (2006) points out that it currently leads to more precariousness than flexibility, especially if we consider the large informal sector and the negligible social protection system. However, one has to point out that the current legal framework is certainly not hampering employment. Hence, there is a priori no reason why changing this framework would have any quantitative impact on employment and unemployment.

Labour policies are mainly drafted by MLSW, and more precisely by the Department of Labour and Employment (DLE) within this Ministry. MLSW is responsible for unemployment registration and has a mediation role in the formal labour market, through the system of employment offices (at the national, regional and municipal levels) and vocational training centres. MLSW is also in charge of two important income support programmes, which has important implications for the labour market, especially in terms of pensions and social assistance. The first one provides a fixed pension to every Kosovan aged 65 and over (independently of any payment to a pension scheme during their working life). The second one is a safety net for the poor; even though it does not explicitly target the unemployed, being registered as unemployed opens access to the programme.

In 2005, the DLE drafted a medium-term employment strategy. It defined a set of active measures, in line with the European Employment Strategy and its three overarching goals: (i) full employment, (ii) quality and productivity at work, and (iii) social cohesion and inclusion. The ten measures proposed are as follows:

- Active and preventative measures for the unemployed and inactive
- Job creation and entrepreneurship
- Address change and promote adaptability and mobility in the labour market
- Promote development of human capital and lifelong learning
- Increase labour supply and promote active ageing
- Gender equality
- Promote the integration of, and combat the discrimination against, people at a disadvantage in the labour market
- Make work pay, through incentives, to enhance the attractiveness of work
- Transform undeclared work into regular employment
- Address regional employment disparities

This strategy was integrated as much as possible into the KDSP preparation process, as it provided a good basis for discussion on further active labour policies. The DLE recently instigated a new approach for its 2008-2013 strategy, defining three policy priorities:

- Employment-centred economic and social policies
- Education and training policies to enhance employability and foster productivity
- Labour market policies that improve productivity and address exclusion

2.2.2 Macro-economic Policies: Job Creation in the MTEF and KDSP

Employment is a top priority for the government. In 2006, the Kosovan authorities embarked on the preparation of a medium-term development strategy. During the process, a large consultation has been conducted, among civil society, the public administration and experts from the international community. The results of the civil society consultation showed, not surprisingly, that the lack of jobs (and, more generally, the lack of economic opportunities) was the population's main concern. Interestingly, it also stressed work and business opportunities as a major factor in furthering a possible reconciliation

between Kosovo's communities, particularly between Albanians and Serbians. Hence creating jobs has become a top priority on the KDSP's and MTEF's agenda. This can be achieved by obtaining (i) rapid and sustainable economic growth, and (ii) making sure that this growth is job-intensive, in particular by promoting private sector's development. On a longer term view, there is also a consensus on the crucial need to invest in high quality education in order to build human capital and to improve productivity.

2.2.3 Current Programmes

Most of the labour-related programmes and projects are education and training projects, and are financed by donors (in 2006, the budget allocated by MLSW to employment programmes was just 100,000 euros, out of a budget of more than 120 million euros). For instance, the EU has invested 17.3 million euros in human resources development in Kosovo since 1999 (ETF, 2006). This includes two vocational education and training reform programmes. On top of that, EAR has been managing a broad vocational education and training (VET) program, named KOSVET (ETF, 2007), supported by the CARDS programme (Community Assistance for Reconstruction, Development and Stabilisation). KOSVET represents an investment of 7 million euros so far. The World Bank has also an education project (Education Participation Improvement), aimed at improving enrolment and retention. Several other VET projects are financed by bilateral donors (GTZ and Swisscontact, among others). Unfortunately, none of these programmes have been evaluated (as far as we know) and their benefits cannot be assessed (in particular in terms of an increased employability of the participants to the programmes).

UNDP is financing two projects directly linked to the labour market:

- The employment generation project, which provides four different schemes: on-the-job training; pre-employment training; employment subsidy; and internship schemes.
- An active labour market programme (ALMP) for young people, which is a continuation of the employment generation project aimed at increasing youth's employability (mainly through the provision of working experience). In 2007, it plans to support 1,100 jobseekers through the four schemes mentioned above. The average duration of the schemes is 5.5 months, for an average cost of 148 euros per participant (UNDP, 2007b). Based on UNDP's own monitoring of the project, it seems quite effective: in 2006, about 70 percent of the participants were still at work after the initial year contract with the programme.

2.3 Main Issues

2.3.1 Uncertainty and Economic Growth

Kosovo is lacking direct investment. Clearly, creating jobs is very difficult (if not impossible) without favourable economic conditions. In order to reduce unemployment, one needs growth, as was stressed during the KDSP preparation process (and as is stressed in the 2008-2010 MTEF). Even though the growth performance has not been catastrophic so far (based on IMF estimates, the MTEF suggests a real GDP growth rate of 3.8 percent for 2006), it is insufficient for the Kosovan economy to develop significantly. Moreover, economic performance is undoubtedly hampered by the political situation and the status-related uncertainty, which provides important disincentives to investment (both domestic and from abroad).

In the labour market, uncertainty comes from ongoing restructuring operations; first, the privatisation process has not been finalised yet. It usually involves payroll cuts, which could have adverse effects on

the labour market by further increasing the number of unemployed. Secondly, the planned status-related Kosovo Protection Corps (KPC) dismantlement and its replacement by a Kosovo Security Force would also leave part of the current KPC staff unemployed. Thirdly, public administration reform is also expected to involve payroll cuts in the administration. However, all these reforms would only marginally increase unemployment (mainly because unemployment is already very high) and would definitely not imply any significant change in the overall employment strategy.

2.3.2 The Challenge of Measuring Unemployment in Kosovo

Sources of data on labour are hardly reconcilable. There are several sources for data on the labour market in Kosovo. On top of the aforementioned SOK's LFS (used extensively above), one can use data of registered unemployment, compiled by the Department of Labour and Employment (DLE) at the Ministry of Labour and Social Welfare (MLSW). These data suffer from a major bias: they only partially cover unemployment, in the sense that all the people registering are not necessarily unemployed, but register to benefit from social payments; and not all the jobless people in the active population are registered. This bias is much larger than suggested by the data: while the unemployment rates according to LFS and the DLE are quite similar (around 40 percent), the World Bank (2003) suggests that two-thirds of the unemployed (as defined by the LFS) do not register. Riinvest (2003) finds this figure to be around 58 percent, which is fairly consistent. As a consequence, about three-quarters of the registered unemployed do not qualify as unemployed in the LFS and are either inactive or employed. In other words, unemployed according to the LFS and registered unemployed do not share the same characteristics, making comparisons across sources a perilous exercise.

SOK provides two sets of surveys that can be used to glean information on the labour market: the LFS and the annual households budget surveys (HBS). However, they can hardly be considered to be a reliable source of information either. As pointed out by the World Bank (2007), comparisons over time are made very difficult by several changes in the methodology from one year to another. For example, depending on the period of the year when the survey is conducted, results can be significantly different, given the high share of seasonal employment in agriculture. Results can also vary depending on the way the interview was conducted (by phone or face-to-face) and, in the case of HBS, on the way people are asked to remember their consumption (daily basis, weekly basis, etc).

A census would improve the quality of data. SOK, supported by donors (IMF, SIDA, DfID), has made considerable effort to improve its surveys' reliability and robustness. However, surveys can hardly be improved without a population census. The frame used in SOK's surveys so far is the one from the last census, which dates back to 1981². Given the changes since then (war, migration, demographic dynamism), this framework is clearly outdated and cannot provide a reliable basis for surveys. However, the census is a very sensitive issue in Kosovo and, even though it has been planned for several years now, is regularly postponed. In the meantime, alternative sources of information have to be found.

² The latest population census to take place in Kosovo occurred in 1991. However, it was largely boycotted by the Albanian community and is not used.

3 SOLUTIONS TO REDUCE UNEMPLOYMENT IN KOSOVO

The preceding section suggests that reducing unemployment in Kosovo is a huge challenge, necessitating a broad approach to be addressed properly.

Kosovo's challenge: creating 100,000 jobs in five years. The 2008-2013 employment strategy sets medium-term targets for labour market indicators: an annual 3 percent increase in employment and an overall unemployment of 25 percent in 2013. Both would require a massive increase in the number of jobs available. According to the IMF's projection (IMF, 2005), the first target alone (with a number of unemployed constant) would imply around 100,000 additional jobs over the period. Labour policies alone are far from being sufficient to deliver this and overcome all the constraints detailed below.

The first constraint emphasized in the analysis above is, as simple as it may seem, the lack of economic opportunities. Hence, a necessary condition to improving Kosovo's labour market situation is to generate growth.

On the supply side, we have shown that labour force in Kosovo is available in large quantities and presents the undeniable advantage of being young. However, it is clearly lacking skills in order to meet potential employers' needs.

Fulfilling the two conditions above (economic growth and quality education) would undoubtedly improve the labour market conditions in the medium-to long term. In the meantime, active labour policies are required.

3.1 Increase the Demand for Labour

Sustainable economic growth that raises employment and increases wages will require strong economic growth, mainly led by the private sector. This in turn requires an enabling environment for direct investment, both domestic and foreign. It implies a set of policies far beyond the scope of the labour market: ensuring macro-economic stability, protecting property rights, developing financial markets and facilitating access to credit, and providing a predictable business environment.

The 2008-2010 MTEF, with an overall policy objective to achieve "*rapid, sustainable economic growth for the benefit of all the citizens of Kosovo*", is in line with such requirements. To do so, the MTEF relies on four overarching principles:

- Sound economic management, including in particular a strict fiscal discipline;
- An efficient and effective state, with a particular emphasis on respect for the rule of law and good governance principles;
- A positive environment for private sector development (PSD), in particular for small and medium enterprises (SMEs);
- A support to key drivers of growth, especially infrastructures vital for economic activity (energy, transport, water supply)

It must be noted that the KDSP (used as a basis for the MTEF) and its large consultation process resulted in an approaching framework. Similar conclusions and policy recommendations were also drawn in several reports, in particular from the IMF (2005), the World Bank (2004, 2006) and UNDP (2007a). One can then consider that a consensus has been built on these issues and on policy priorities for Kosovo. In particular, the main impediments to PSD have clearly been identified and can be summarized as follows: (i) corruption and uncertainty over the rule of law, including property rights, (ii) a

rather rigid market for production factors, in particular land and capital, due mainly to the aforementioned poor definition of property rights, (iii) poor public goods' provision, and (iv) an imperfect financial market.

PSD and growth could also be favoured by international trade. Provisions made by the IMF and used in the MTEF suggest that Kosovo should see its exports and import-substitution activities increase in the near future. It would undoubtedly contribute to improve the situation on the labour market. However, it seems premature to talk about a genuine trade policy before Kosovo's status is settled.

3.2 Improve Labour Supply's Quality: Invest in Human Capital

The lack of skills among Kosovo's active population is regularly stressed as one of the main reason why unemployment is so high and productivity (and wages) is so low. In the long run, it would also hurt all the efforts of growth promotion mentioned above. Finally, human capital building is a crucial part of population's well-being improvement, as it has non-negligible qualitative effects. We have already isolated two main issues in this sector: the bad quality of education, which hurts young people's chances of finding a (good) job, and the lack of skills among the adult population due to the "lost decade" of the parallel education system.

3.2.1 Improving Education's Quality

The 2008-2010 MTEF states that the government "plans to undertake a significant capital investment programme in the education sector" in order to improve both the quality of and access to education. This program shall be complemented by two measures aimed at improving education's quality: an incentives system (through increases of teachers' wages) and a certification mechanism for teachers.

We can also mention the Youth Employment Action Plan, drafted with ILO's support. This Plan presents the advantage of seeking to coordinate the activities of several ministries in efforts to improve youth employment with the following objectives:

- decreasing the primary school drop-out level
- more extensive inclusion in vocational education
- improved vocational education opportunities
- improved access to information, education and career guidance
- efforts to increase the number of start-up businesses
- decreasing the percentage of youth employed in the informal economy
- increasing the number of youth registered in public employment services.

3.2.2 Training Programmes

Improving the quality of education, though critical for Kosovo's future, would take time to show effects. In the shorter term, one has to address the lack of skills of the current active population. Several training programmes already exist, financed either by the Ministry or by the donors. According to ETF, 37 million euros have been spent over the 2002-2004 period in HRD (of which 30.5 million were spent by donors). Around 23 million euros were spent on training (vocational training and SME training). However, one has to be careful when setting up and implementing such programmes; targeting is particularly critical if one wants to obtain convincing results, as suggested by the World Bank (2003):

“The experience from OECD countries with training programmes for the unemployed is mixed. Broadly targeted training programmes appear to seldom raise either employment chances or earnings. Programmes targeting particular problems (e.g. for skills in short supply) obtain better results; and the impact is greatest for individuals whose problems are clearly identified and only moderately severe. Better targeting of training programmes means focusing training programmes on younger adult men and women, rather than on older adults and youth.”

3.3 Active Labour Policies

Active labour policies alone would probably not solve the unemployment problem in Kosovo. However, they could accompany the current efforts to generate job-intensive growth and investment in human capital. In particular, active labour policies could be helpful if they target some particularly deprived labour market groups, such as women or the long-term unemployed. When implementing active labour policies, one has to balance the advantages of the current system (flexibility, low labour cost) with the need to protect the workers and reduce precariousness.

Strengthening the existing employment system is certainly needed. ETF (2006) points out that there are 1640 (registered) unemployed to 1 public service employment officer in Kosovo, which is of course insufficient. The MLSW’s employment strategy has also stressed the critical need for a labour market information system. It is indeed an essential foundation for effective employment services: monitoring changes in employment and anticipating labour demand and supply needs. It would require several information sources (households’ surveys, employers’ surveys, and administrative data) to be combined, whilst ensuring coherence among them. It would then imply a permanent effort to maintain these databases. A bi-annual labour force survey (one during the winter, and one during the summer in order to catch seasonal variations in employment) would represent a first step.

Implementing public work schemes would enable a reduction in short-term unemployment. However, the cost-effectiveness of such programmes is far from evident, especially when compared to other income transfer programmes. As proposed by the 2008-2010 MTEF, a better targeting of the existing social transfer programme would probably be a preferable solution.

There also seems to be a consensus against the implementation of an unemployment insurance scheme, for several reasons: first, like public work schemes, the cost-effectiveness of such a system is not guaranteed. Secondly, given the very tight financial constraint faced by Kosovo, it would certainly be unaffordable without increasing payroll taxes. Thirdly, increasing payroll taxes would not be a solution either, as it would raise the cost of labour and then probably increase unemployment.

Finally, **maintaining and enlarging the access to labour market abroad should also be part of a broad strategy to reduce unemployment in the short term.** In particular, it would be helpful to develop partnerships in order to promote seasonal (and temporary) migration to other European countries (for instance, Romania had developed such partnerships before its accession to the EU).

3.4 Experts' Comments and Suggestions

Several experts kindly gave us their views when asked to answer the central question of this report: 'How to reduce unemployment in Kosovo?' By and large, they are in line with our main conclusions.

Elisabeth Huybens, Lead Country Officer, World Bank

I would say that in the short term it would be important to (i) maintain and enhance access to international labour markets; (ii) maximize the labour content of investment/construction programmes. In the long term Kosovo would need to considerably improve the quality of human resources through improving the quality of education.

Email communication, 08/17/2007

Felix Martin, Country Economist, World Bank

Briefly, I think two things that I would stress - though I would preface this by saying that I certainly do not consider myself an expert on Kosovo's unemployment problems - are that:

(a) Export of labour via emigration / guest-working etc. - both within the SFRY and more widely (Switzerland etc.) has always been an important part of Kosovo's economy, and must, I would have thought, remain a critical element in Kosovo's development strategy, and in particular any strategy to reduce unemployment (broadly conceived). There are two main elements that need to fall into place: (i) willingness of other countries to receive Kosovar workers, and (ii) organisation of contingents etc. on the Kosovar side. Government likely has a role in both, but does not seem effective at this at the moment.

(b) Kosovo's unemployment problem is different from those of most other transition countries that I know of, and indeed even of most of the rest of the SFRY. It is less a problem of re-activating workers that have lost jobs than of getting people into work that have never had jobs; and it is becoming every year more a problem of unemployment amongst the young. So transposing lessons from other transition countries may be tricky: this is a situation more familiar from a genuine 'developing' country.

Email communication, 09/04/2007

Hjalte Sederlof, EC/ World Bank Lead Advisor to the KDSP on labour and social policies

Good short-term initiatives are to facilitate labour migration (including training for finding jobs abroad), introduce well-designed public works and public service schemes and establish an employment fund.

I don't believe employment services or public training program programmes are of much use as long as there is little information on demand and supply in the labour market, including wages, and as long as there is a weak tracer system – currently it is impossible to determine the value added of a training program, even if the trainee gets a job. A key set of statistics in labour market analysis is the wages and salaries of labour with different qualifications (in the private sector; in the public sector wages and salaries tend to be too rigid to accurately reflect shortages or excess of labour).

There is some argument about labour force surveys being useful for labour market analysis – they are not. Household surveys are – the information must begin where labour is to be found, i.e. in the household.

So, an immediate strategy deals with creating temporary jobs – at home or abroad. A longer term strategy deals with getting the regulations and business opportunities, including small business support, right, and introducing labour market analysis (as contrasted with planning) that underpins training and employment services.

Email communication, 08/27/2007

Harald Stieber, Economic and Financial Desk Officer Kosovo, European Commission

The lack of quality data is critical. While data on employment are bad, data on unemployment are good but not sufficient given the size of the informal sector. Hence, it is not clear how big unemployment is. We definitely need a census to get a better picture because so far, we don't have any level data, we can just measure changes. Besides, we don't have any social security data that could provide information on individuals' status on the labour market. In the meantime, I would suggest using existing data and that must provide information: national accounts, car registration, direct taxes (on wages), insurances (of car, houses, etc) or mobile phones registration.

Transcript of a phone conversation, 08/17/2007

4 CONCLUSIONS

Policy recommendations clearly emphasize short term and medium-to-long term needs.

In the short term, it is critical to (i) improve the labour market information system in order to improve the definition and targeting of active labour policies, and to (ii) maintain and develop the access to job markets abroad and seasonal migration.

In the long term, job creation through economic growth and private sector development, as well as investment in human capital and skills, seems to be the unavoidable path to making unemployment decrease in a sustainable way and to ensure Kosovo's prosperity.

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APPENDIX 1: LIST OF PERSONS CONTACTED

Name	Institution
Minister Haki Shatri	Ministry of Economy and Finance (MFE)
Bexhet Brajshori	MFE
Muharrem Ibrahim	MFE
Agim Krasniqi	MFE
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