



*Empowered lives.
Resilient nations.*

FEASIBILITY STUDY FOR ESTABLISHMENT OF AN EMPLOYMENT FUND IN KOSOVO*¹

This report is prepared for the Ministry of Labour and Social Welfare of Kosovo with support of the United Nations Development Programme (UNDP) in Kosovo through its Active Labour Market Programmes 2 (ALMP 2)

Pristina/Prishtinë/Priština, December 2018

¹ References to Kosovo shall be understood to be in the context of Security Council Resolution 1244 (1999)

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Executive summary²

This report has been prepared under an UNDP Project: Active Labour Market Programme 2(ALMP2) / Sustainable Development. The project sought to assist Kosovo³ institutions in establishing an employment fund. One international and three local experts conducted the Project. It included preparation of three specific analyses (snapshots) of the current situation in Kosovo, in three areas: macroeconomic and fiscal framework, labour market and education. These reports then fed into a study which develops the model(s) for establishing a sustainable employment or guarantee fund for financing active labour market policies in Kosovo. The report was developed based on: i) documentary analyses of the main strategic documents for Kosovo, specific analyses of the international institutions (World Bank, IMF, European Commission, ILO, etc.); ii) use of official statistical data of the Kosovo Agency for Statistics (KAS), Ministry of Labour and Social Welfare (MLSW), Ministry of Finance and other institutions; iii) meetings with the policymakers (Annex 1 presents a list of meetings held through the preparation of the report); and iv) presentation and discussion of the draft report at a plenary session of the 1st International Scientific Conference of the University of Prishtina, held on 16-17 November, 2017.

Macroeconomic and fiscal framework

Over the last decade, the economy of Kosovo has grown steadily, with highest average annual rate in the Western Balkan region of 3.5% during the period 2008-2016. However, the growth has been largely driven by remittances and infrastructure investments, whereas the domestic tradable goods sector remains weak. Remittances (accounting for about 14% of GDP) and the large public sector are driving up consumption.

Prices were stable following the euro inflation. External deficits remain high, but well financed. Kosovo's trade deficits have been historically high, because of the country's narrow productive and export base and high import dependence. The current account deficit is close to 10 percent. Following historical patterns, financing of external deficits remains steady and largely non-debt creating, mostly in the form of remittances, official transfers, and foreign direct investment. FDIs have mostly been oriented towards real estate sector and much less in investments in tradable goods. Infrastructure investment needs are large, given the low starting base, but infrastructure presents a large limit to the competitiveness of Kosovo.

Over years, fiscal stance of Kosovo has been marked by small deficits and a slow but steady increase in public debt. Deficits were not exceeding 3 percent of GDP. In 2014, a rule was adopted to limit the overall fiscal deficit at two percent of GDP and amended in 2016 to allow spending on productive capital investments beyond the ceiling, and not to exceed a public debt to GDP ratio of 30 percent.

Currently, Kosovo has a VAT regime with a general rate of 18 percent and a rate on food and medications of 8 percent. The personal income tax ranges progressively between 0% and 10%, yet being among the lowest in the world. No social security contributions are applicable in Kosovo. Tax revenues reached the level of 26.7 percent of GDP, which is not high compared to other countries, reflecting the fairly narrow base, on top of the low rates. Fiscal position continues to be stable.

² The views expressed in this document are those of the authors and do not necessarily represent the views of UNDP.

Labour market

Despite the continuous growth of GDP, the economy of Kosovo is not able to generate enough employment for the large number of unemployed people in the country. The narrow production base of Kosovo offers limited employment opportunities, so that virtually every work-able person faces a challenge in finding a job. Kosovo's labour market is faced with large challenges. Labour Force Survey (LFS) data show that Kosovo has the lowest labour force participation rate in the Western Balkans and Europe, at 38.7% in 2016. At the same time, Kosovo faces the lowest employment rate and the highest unemployment rate in the region. The high unemployment rate is Kosovo's paramount socio-economic problem with both immediate and long-term consequences. The labour market is particularly difficult for young people, women and the poorly educated. Gender differences in the labour market are very large. While the employment rate of men is 43% (in 2016), only 12.7% of the women at working age are employed. This large gap is also true for the labour force participation, with few females participating in the labour market due to social norms (dominance of the traditional, male-breadwinner households); remittances; perception about the lack of necessary skills of women; and the belief that there is no work available (discouraged workers). Reliance on remittances and the widespread informal economy additionally decrease employment incentives, resulting in low labour force participation, especially among women, and high unemployment rates, in particular among young and unskilled workers.

The labour market places a considerably high premium on workers with higher education, with a stark difference in employment and unemployment rates by level of education (the employment rate of the tertiary education graduates is 60.2%). Of those highly educated, two thirds are employed in the public sector, which can be considered a high quality employment, whereas most of those with only primary education are in agriculture. The public sector is an important source of employment and pays higher than average wages. It is also reducing private sector wage competitiveness.

On the other hand, the large number of persons who are not seeking employment, especially among young people and women, is worrying, in a context where the economic development of Kosovo depends on the impact of productivity in the economy. Despite the recent improvements, the NEET rate (youth neither in employment nor in education or training) is still high at 30.1% in 2016.

Most unemployment is long-term, even among prime-age workers. Integration of youth in the labour market is problematic due to poor transitions from the education system as well as, in the case of women, social norms. The large challenges of the labour market require strong and coordinated efforts of the policymakers and labour market institutions in order to address those challenges.

Kosovo has already established a solid basic legal framework in the employment area through which regulates work and employment issues, safety and health at work. The MLSW, and particularly its Department of Labour and Employment, is the main institution responsible for employment policy design and implementation, including the active labour market measures (ALMMs). However the recently established Employment Agency of Kosovo (EAK) overtook this last function, acting as an implementing agency of the MLSW. The size of the active programmes is though quite small, with only 2.8% of the registered unemployed persons in 2016 participating in some ALMM, apart from the participation in vocational training delivered by the Vocational Training Centres (VTCs) which covered 6.6% of the unemployed. In addition, a small number of registered jobseekers benefit from mediation in employment or vocational training, although the numbers are increasing.

There are large mismatches between the supplied and demanded skills in the labour market related to quality issues, institutional capacities, low institutional spending, but also the poor information flow between the education and labour market. Employers put much of the blame for the mismatch on the public education system, arguing that the general education system does not prepare the workforce well, especially in terms of practical and up-to-date knowledge.

Education

Kosovo has the youngest population in Europe, with 28% of the population being younger than 15 years of age. With such high percentage of pupils' population, education is the most important service sector in Kosovo. Although education reforms and institutions have been supported by various international organizations consistently after the conflict, there are still major concerns with the quality of education.

Within the past decade, there has been a general increase of the educational attainment of the Kosovo's population through expanded access and provision of tertiary education, both public and private. The increase of student numbers in tertiary education ameliorated the unemployment rate and (along with the emigration) somewhat eased the pressure onto the labour market stemming from the entrants. However, the issue of the quality of education is very important. While higher levels of education may increase employment opportunities, under-skilling resulting from poor quality of education causes skill mismatch and unemployment.

Kosovo managed to develop a modern legislation in the education area, however the legislation itself and the access alone do not ensure conditions for a meaningful education experience and employment. In many reports, the shortcomings of the education system are blamed for the high youth unemployment rates. Deficiencies in the implementation of legislation at institutional level and overemphasis on political management resulted in unsatisfactory institutional modernization and increased political interference in the management of institutions.

There has been a large progress in the establishment of proper quality assurance mechanisms in education, but additional progress is still required. Within the higher education, the accreditation process foresees that labour market needs are taken into consideration for the approval of the programmes, while at the same time many reports highlight the mismatch between the labour market needs and the offered programmes at the vocational schools and at the higher-education institutions. It seems that the basic assumption for the approval and accreditation of programmes is not based on reliable data, thus allowing accreditation of programmes that create a surplus of graduates. Data suggest that both vocational and higher education degrees are concentrated in similar fields of study, which are not responding to the demands of the employers. In terms of profiles, the student body in vocational schools is distributed mainly in Business, Engineering and Technology, and Medicine. Similarly, the highest number of students enrolled in first year of study, in 2016, was in Business Studies and Management Sciences, followed by Law and Medical Sciences.

Employers are generally dissatisfied with the skills of tertiary education graduates. Graduate skill shortage is not only barrier to, but also a cost for the business operation. The vertical mismatch, referring to a situation "where an employee has a qualification either above or below the skill level needed to do the job" is estimated to be higher than horizontal mismatch, where the employee has a qualification in a field of study that is not in line with the job requirement. The phenomenon of over-qualification is large and growing. Despite the high unemployment, employers report that they could

not find appropriate workers, especially in the fields of Education, Information and Technology, and Engineering and Manufacturing.

Organisational and financing options for establishment of an Employment Fund in Kosovo: a comparative perspective

The analyses of the Kosovo's economic, labour market and education context show that Kosovo should design medium- and long-term policies which ensure strategic, efficient, effective and sustainable solutions for supporting employment generation. Hence, the last part of the report is focused on developing organisational and financing options for establishment of an Employment Fund in Kosovo, through a comparative perspective of the Western Balkan countries, as well as the EU countries.

There are two major constraints of the employment policy in Kosovo. The limited fiscal space presents a large constraint to the employment policy. This, coupled with the organizational and human resources challenges, leads to relatively low effectiveness and efficiency of the employment policy in general, as well as of the active labour market measures (ALMMs) in particular. Due to the limited budget expenditures in amid the tight fiscal space, the financing of ALMMs is currently mainly done with the support of donors (with the exception of VTCs which have a relatively stable budget). Spending on ALMMs in Kosovo in 2016 was about EUR 1.8 million, planned to increase to EUR 2.1 million in 2017, which is about 0.04% of GDP. This is low even by the Western Balkan standards, where the average spending is about 0.12% of GDP. The donor support overpasses the national budget expenditures on employment policy. However, despite the relatively developed system of donor coordination, there is a large potential for increasing the effectiveness of the ALMMs (within the current overall spending) through better coordination and streamlining the donor support through one institutional agency.

Institutional arrangement. Institutionally, the establishment of the EARK was a right decision by the Authorities. Though, it will take some time for the Agency to become fully functional and to be staffed as planned. There can be a strong learning curve for the EARK which can lead to effectiveness gains in the medium-run. Given that currently there are other institutions (apart from the MLSW) implementing some active programmes, it is highly advisable that on long-run the programmes are integrated and administered by one agency, and the EARK is the best place to do so. This same has to be done also regarding the ALMMs implemented by donors, whenever possible (due to initial capacity constraints of the EARK).

We propose that the Employment Fund is set within the MLSW. The Employment Fund has two elements: physically, it should be established as a separate Unit within the MLSW and, financially, it should collect all the available funds for financing of ALMPs. The Ministry already has a Department of Labour and Employment, which could easily set the Employment Fund' Unit. The initial financial burden for setting up of the fund, in terms of staffing and organization will be negligible as it will employ only three employees. The Employment Fund could immediately undertake a role of a single focal point responsible for the coordination and financing of ALMMs, i.e. as being a single budget line of the MLSP. The Fund, at this stage, is expected to act as a tendering and contracting authority for ALMMs (and potentially for employment policies in a broader sense), as well as providing monitoring and supervision of the ALMMs execution.

The EARK needs to further develop its capacities in order to be able to provide more and better-quality services and programmes to the unemployed. The quantity and quality of the staff of the PES significantly affects the final outcomes of the job mediation and active policies. Currently, there is a large burden i.e. casework of the PES staff. Whereas the internationally-set appropriate ratio is 1:100 (100 unemployed per one counsellor), the actual ratio in Kosovo is more than tenfold, at 1:1, 106.

Planning and use of the funds. The use of the funds of the Employment Fund should follow the priorities set in the National Employment Strategy. Practically, it will be based on comprehensive operational plans/programmes for active labour market policies which will be prepared on annual basis, at the latest by December in the current year for the next year. The preparation of the Operational Plans will increase the certainty in the employment policy planning, transparency and will improve the effectiveness of the use of the funds. The Plan would also designate the implementing institutions for all planned ALMMs (including the donor organizations). That will improve the coordination and overcome the problem of duplication of projects. As previously stressed, the long-term aim should be that one institution (the EARK) implements all programmes as that it will produce efficiency gains. In addition, the Operational plan will help the MLSW and EARK to better coordinate the donor support for the ALMPs.

Funding sources. In general, there are two main approaches to financing employment policies, the *insurance-based* (social-security-fund) system and *welfare (tax-financing)* system. The choice of the financing system is important as it can affect the distributional effects of the system and the justice. Based on the experience of the other countries in the Western Balkan (countries of similar development and institutional context), as well as the EU countries (which resemble the future of Kosovo), we suggest a choice between two funding options. The two options (i.e. calculations) are based on collection of about EUR 4.5 million in 2018 (the funds should increase by about 7% per year), which is the current estimated spending on ALMPs by all institutions.⁴

Introduction of an unemployment insurance contribution of 0.2% of the gross wage paid by employers. There are two basic arguments for this option: the labour taxes in Kosovo are very low in comparison with the WB countries and the EU countries. While the tax wedge should be kept at a low level (as high tax wedge may discourage employment), it is at very low levels which are harmful for the social security of workers. Additional argument for introduction of social contributions stems from the comparatively low share of labour taxes and contributions in total commercial profits in Kosovo relative to the countries in the region and the EU countries. This implies that there is a room to increase the labour taxes without hurting employers. Based on calculations, a small contribution rate of 0.2% paid by the employers (on behalf of workers) will ensure sufficient and sustainable resources for funding of the Employment Fund, at least in the first years of operation. Then, as financing needs of the current ALMMs increase, and as new measures are potentially added in the portfolio, the percentage may increase to reach levels common for the neighbouring countries.

⁴ There are no readily available and detailed information on the spending on ALMMs by each institution.

Introducing stable, general tax financing. This option implies that policymakers should establish a rule for the share of overall budget (or from the revenues collected from particular tax) that should be spent on ALMMs. In this option, we propose that 1.7% of the direct taxes (personal income tax and profit tax) are earmarked for the financing of the Employment Fund.

Although the first option is the only long-term solution (given the build-up of Kosovo's system and institutions in the EU-related manner), it may seem less feasible in the short- to medium-run. Hence, we suggest that, in the following 2-3 years, the Kosovo Authorities focus its efforts on establishing the Employment Fund within the MLSW (without a necessary increase of the funding), and on re-directing all expenditures for ALMMs and all active programmes toward the Employment Fund and the EARK. In the meantime, it should carefully plan the introduction of the unemployment insurance benefit.

1. INTRODUCTION

This report has been prepared under an UNDP Project ALMP2 / Sustainable Development. The project sought to assist the Kosovo Authorities in establishing an employment fund. One international and three national experts conducted the Project. It included preparation of three specific analyses (snapshots) of the current situation in Kosovo, in three areas: macroeconomic and fiscal framework, labour market and education. These reports then fed into a study which develops the model(s) for establishing a sustainable employment or guarantee fund for financing active labour market policies in Kosovo. The report was developed based on: i) documentary analyses of the main strategic documents for Kosovo, specific analyses of the international institutions (World Bank, IMF, European Commission, ILO, etc.); ii) use of official statistical data of the Kosovo Agency for Statistics (KAS), Ministry of Labour and Social Welfare, Ministry of Finance and other institutions; iii) meetings with the policymakers (Annex 1 presents a list of meetings held through the preparation of the report); and iv) presentation and discussion of the draft report at a plenary session of the 1st International Scientific Conference of the University of Prishtina, held on 16-17 November, 2017.

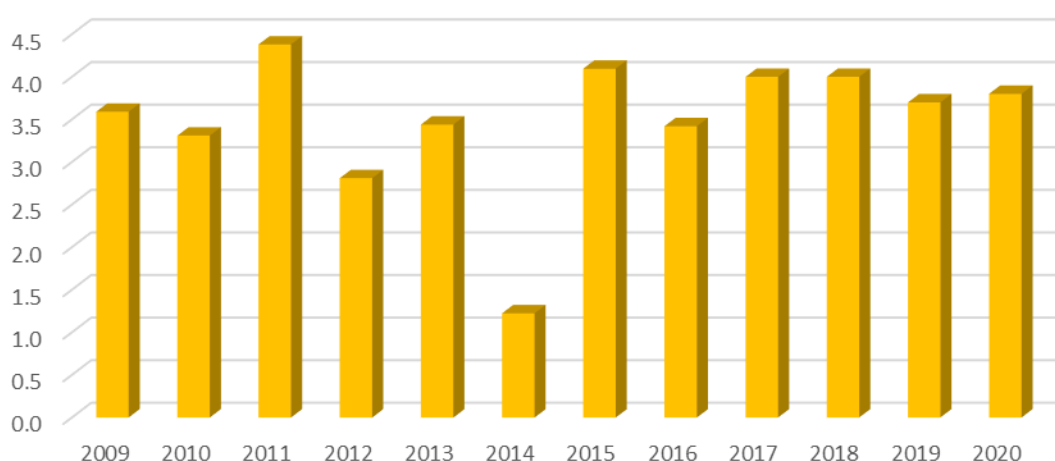
The structure of the report is as follows. Section 2 presents the macroeconomic and fiscal framework of Kosovo. Section 3 provides an overview of the labour market, while Section 4 of the education system of Kosovo. Section 5 presents a review of the organization and administration of employment policies in Kosovo, with proposals for establishment of an Employment fund.

2. THE MACROECONOMIC AND FISCAL FRAMEWORK OF KOSOVO

2.1. Macroeconomic trends over the last decade.

Kosovo's economy has shown relatively strong growth over the past decade driven mostly by domestic demand and largely financed by remittances and donor aid. GDP growth averaged 3.4 percent during 2008–15. Domestic savings have been negative; consumption and investments were the key contributors to economic growth. Private consumption was fuelled by both remittances and large increases of wages in public sector and increase of transfers (especially pensions).

Figure 1: GDP growth



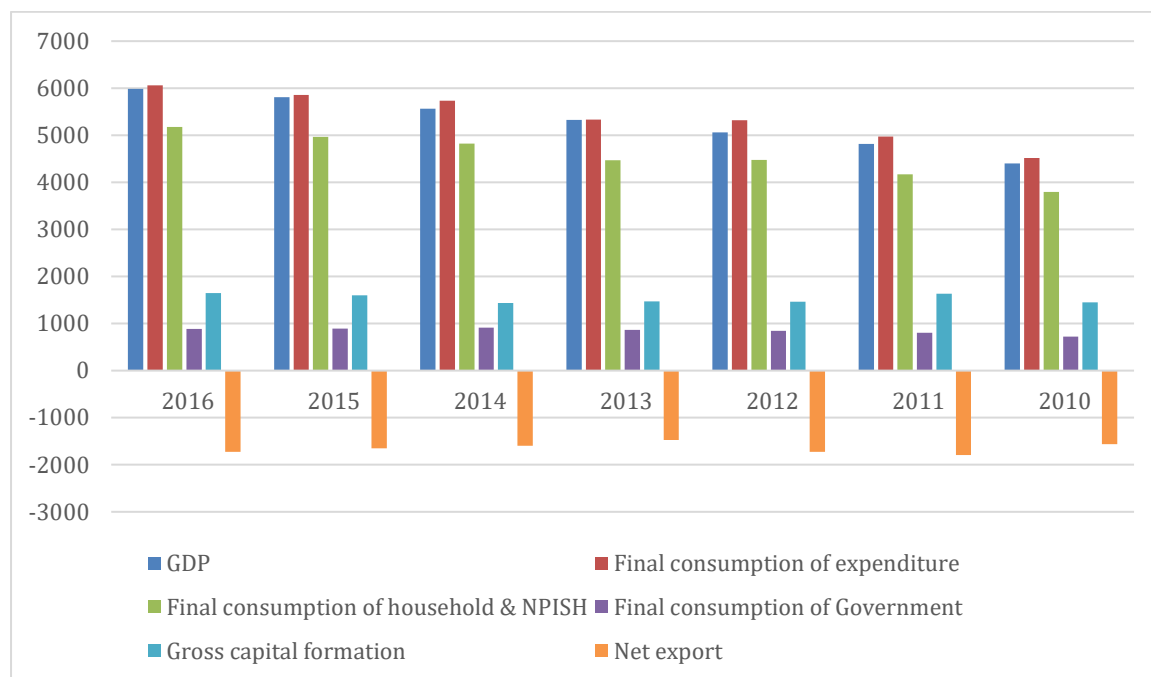
Source: KAS national account data and IMF Forecast

The chart shows that GDP growth over the decade was strong with the lowest rate of increase by 1.1 in 2014. Weak growth in 2014 is attributed to two factors; lack of energy supply due to explosion in Power plant Kosova A and the impact of political gridlock after election in June of that year. The political gridlock has been reflected in weaker capital spending execution.

There are doubts as to whether the current model can deliver sustainable growth and shared prosperity. The latest assessment of poverty in Kosovo made is for 2015 when poverty was assessed to be at 17.6 percent. According to this study, the lowest poverty level is in those families that receive incomes from the institutional budget and families that receive remittances.

Creating conditions for a dynamic private sector could become more difficult and social tensions may deepen without more job creation.

Figure 2: GDP structure by expenditure approach

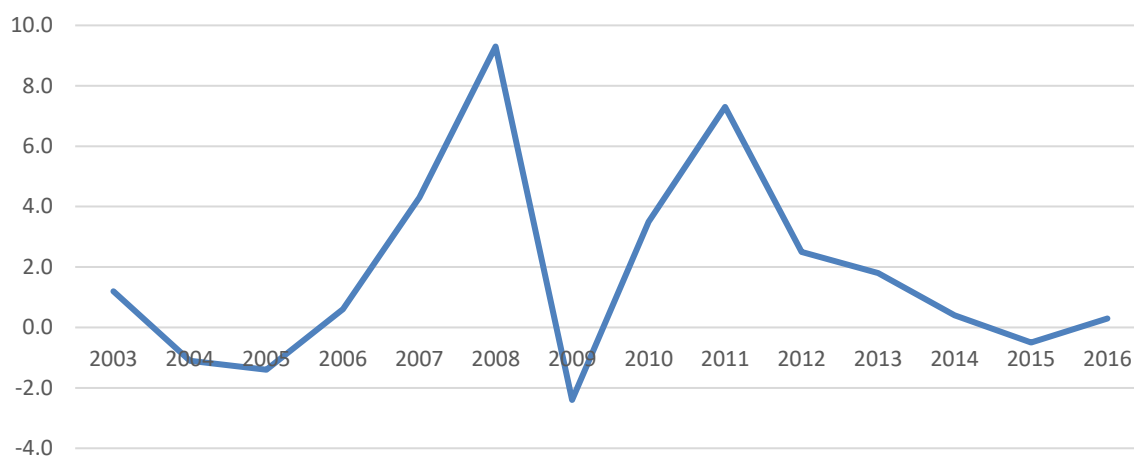


Source: KAS national accounts

2.2. CPI inflation

Prices were stable, generally following the euro inflation. During 2015 and 2016 there was some deflationary pressure (see Figure 3). In particular, there was a negative inflation averaging at -0.5 percent in 2015 which has remained negative through most of 2016. In 2017, inflation has started to recover and it turned positive and it is estimated to be at 1.7 for 2017. The drivers of this turnaround have been mainly the external food and energy prices. The level of inflation is largely driven by import prices taking into account high dependence of the economy on imports.

Figure 3: Consumer Price Index, CPI



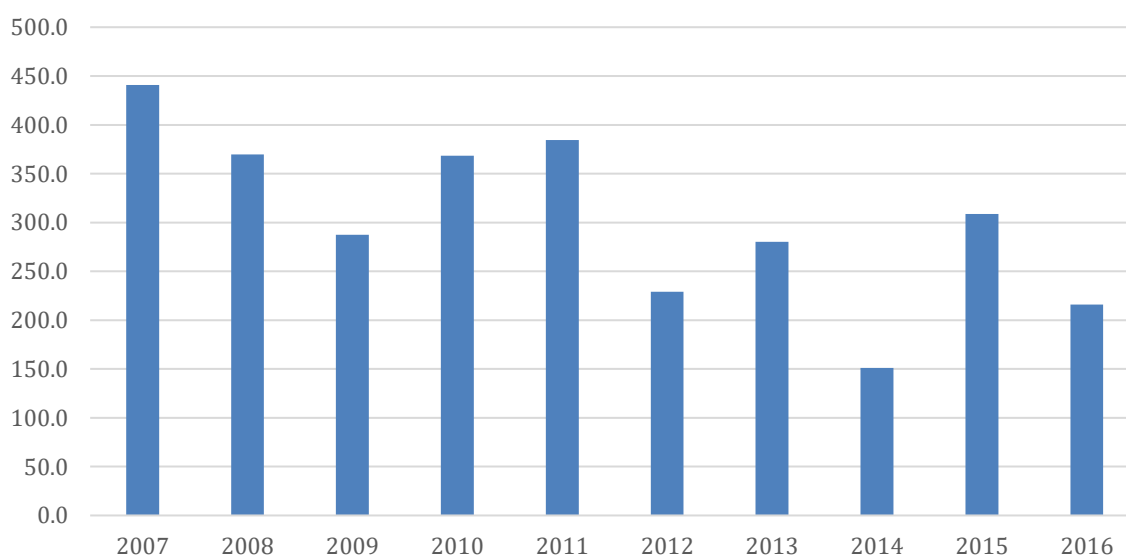
Source Central bank of Kosovo

External deficits remain high, but well financed. Kosovo’s trade deficits have been historically high, because of the economies narrow productive and export base and high import dependence. The current account deficit is close to 10 percent. Following historical patterns, financing of external deficits remains steady and largely non-debt creating, mostly in the form of remittances, official transfers, and FDI-s.

2.3. Foreign Direct investment in Kosovo

The FDIs play an important role on closing the gap of current account deficit. The chart below (Figure 4) shows the trend of FDI throughout the years. The level of FDIs is largely driven by diaspora and more than 80 percent of it goes for non-tradable sectors such as constructions, trade etc. The level of FDIs is also influenced by process of privatizations in Kosovo. During 2007-2011, there were more FDIs which is related to privatization of SOE-s in Kosovo.

Figure 4: FDI in millions of euros



Source Central bank of Kosovo

2.4. External trade data

Figure 5 below show the developments of the external trade. The trade deficit is very high and the coverage of imports with exports, on average, for the period 2008-2016 was around 14 percent. The exports base is very small and highly dependent on two or three products (mostly metals, unprocessed metals including scraps of metal).

Figure 5: External trade data for Kosovo



Source: KAS database

2.5. Fiscal Policy

Over the years, fiscal stance has been marked by small deficits and a slow but steady increase in public debt. The deficit has been within acceptable limits, not exceeding 3 percent of GDP.

The 2009–2011 fiscal deficits were financed mainly by surpluses accumulated before 2008 (bank balance for 2008 was 10.7 percent of GDP, see the

Table 1 below). Since 2012 financing has been through domestic debt and drawing from the IMF programmes in 2012 and 2015.

In 2014, a rule was adopted to limit the overall fiscal deficit at two percent of GDP, with some exceptions for one-off revenues from privatizations that could be spent for capital investments. In 2016 this rule was amended to allow spending on productive capital investments beyond the two percent ceiling, subject to being financed by IFI's, and not to exceed a public debt to GDP ratio of 30 percent.

The 2015 fiscal deficit was 1.7 percent of GDP, which is below the original projection of 3.5 percent. There seem to be a consolidation measures in the 2015 with mid-year budget review when they saved about 0.9 percent of GDP, but also supported by savings due to an under-execution of some capital investments.

Table 1: Budget performance as a share to GDP

	Total revenues	Tax revenue	Primary expenditure	Current expenditure	Wages and salaries	Goods and services	Subsidies and transfers	Capital expenditures	Overall balance	Bank balance of the general government
2008	24.3%	21.1%	24.5%	16.9%	5.8%	4.1%	7.0%	7.6%	-0.2%	10.7%
2009	28.2%	20.3%	28.8%	17.6%	6.5%	4.2%	6.9%	11.2%	-0.5%	8.4%
2010	26.2%	20.6%	28.7%	17.3%	7.1%	4.1%	6.1%	11.4%	-2.2%	5.5%
2011	27.1%	22.3%	28.7%	17.3%	8.0%	3.7%	5.6%	11.4%	-1.8%	3.3%
2012	26.1%	22.0%	28.5%	17.5%	8.1%	3.8%	5.7%	10.9%	-2.4%	4.3%
2013	24.6%	21.0%	27.6%	17.8%	7.8%	4.0%	6.0%	9.7%	-3.0%	3.0%
2014	24.0%	20.9%	26.3%	19.0%	8.7%	3.7%	6.6%	7.3%	-2.3%	1.8%
2015	25.1%	21.8%	26.7%	19.9%	9.0%	3.5%	7.4%	6.8%	-1.7%	3.5%
2016	26.7%	23.8%	27.7%	20.6%	9.1%	3.4%	8.1%	7.1%	-1.2%	3.5%

Source: Ministry of Finance

In 2015, a tax reform has been introduced when the main VAT rate increased from 16 to 18 percent while reducing the rate on food and some other products from 16 to 8 percent, and a new VAT of eight percent on medications. In addition, the excise taxes on some commodities were increased. These changes along with one-off revenues from partial liquidation of SOE privatization fund added 1.1 percent of GDP to the overall tax revenues.

Kosovo fiscal position continues being stable. Data for end 2016 show that Kosovo is committed to fiscal prudence. The deficit rule of 2 percent of GDP that was introduced from 2014 was respected (see below). Revenue performance in 2016 was strong with tax revenues growing by 9 percent (increase of 2 percentage points, from 21.8% of GDP to 23.8 percent of GDP). Expenditures increased by 6 percent which resulted in a deficit of 1.7 percent, lower than the 2 percent foreseen by Fiscal Rule.

Tax revenues (as a share of GDP) are still low compared to other countries. This reflects low tax rates and fairly narrow taxation base. VAT and excise tax collections are the main sources of budget revenues. The highest VAT rate in Kosovo of 18 percent, is lower than the average for countries in the region (at 20.5 percent).

Also, personal income tax is amongst the lowest (progressive rates from 4 to 10 percent the highest rate) in the region. Personal income tax is applicable at the following rates:

Table 2: Personal income tax rates

Tax rate	Monthly income (in Eur)	Annual income (in Eur)
0%	0 to 80	0 to 960
4%	80 to 250	960 to 3000
8%	250 to 450	3000 to 5400
10%	450 onwards	5400 onwards

Source: Ministry of Finance.

On the expenditure side, Kosovo Authorities face high spending pressures. For the current spending, Kosovo has spending categories related to conflict, especially veterans require large spending needs. When the scheme started in 2015, initial assumption was that the cost should not exceed 0.4 percent of GDP, while it actually exceeded 1.1 percent of GDP with further increasing trend. This issue was the main subject discussed with the IMF while the Kosovo Authorities had a programme with the institution. As part of the programme, the law on war veterans⁵ was changed and a cap of 0.7 percent of GDP was set, and a process of reclassifications of veterans in order to keep the cost within this limit. Kosovo Authorities have taken decision to create commission to do reclassifications of veterans but the process has not started yet. At the same time, Kosovo has big infrastructure projects such as R6 and new projects expected to start, which will produce budget pressures in the future. The experience so far was such that whenever election cycle came, authorities promised wage and pensions increases. In order to avoid such sharp increases, a wage bill rule was introduced. With this rule, a limit was set by which wage bill cannot grow more than nominal GDP. This rule has somewhat changed the behaviour of the political parties within elections so that within the 2017 elections, when political

⁵ Law no. 05/I-141 on amending and supplementing the law no. 04/I -261 on Kosovo liberation army veterans, <http://gzk.rks-gov.net/ActDetail.aspx?ActID=14581>

parties promised wage increases but they were quite careful and stated it should have been in line with the productive capacity of the economy. We also see that while the budget of 2018 was prepared, the authorities applied the rule.

Under the IMF programme, Kosovo Authorities have agreed to adopt an investment clause under the LPFMA which allows Kosovo to enter higher deficit than the debt rule if these projects were financed by IFI-s or funds transferred by Privatization Agency. The deficit rule was introduced in 2014 when the Law on Public Finance Management and Accountability was changed⁶ as part of the programme with the IMF. Additionally, this law was changed again in 2016 when it was agreed to allow the authorities to increase the deficit above the fiscal rule if these projects are financed by IFI-s and if these projects are considered capital projects.

So far, Kosovo Authorities were not very effective in utilizing this opportunity; only a small fraction of IFI financing was materialized although a number of projects are under process of negotiations with them. The low performance in negotiating of these projects is related to the fact that IFI-s have their standard procedures and they require preparations of each project with feasibility, environmental and other studies in order to be considered. Capacities of Kosovo Authorities seem to be weak in this regard; institutions have identified projects but were not supported with these studies.

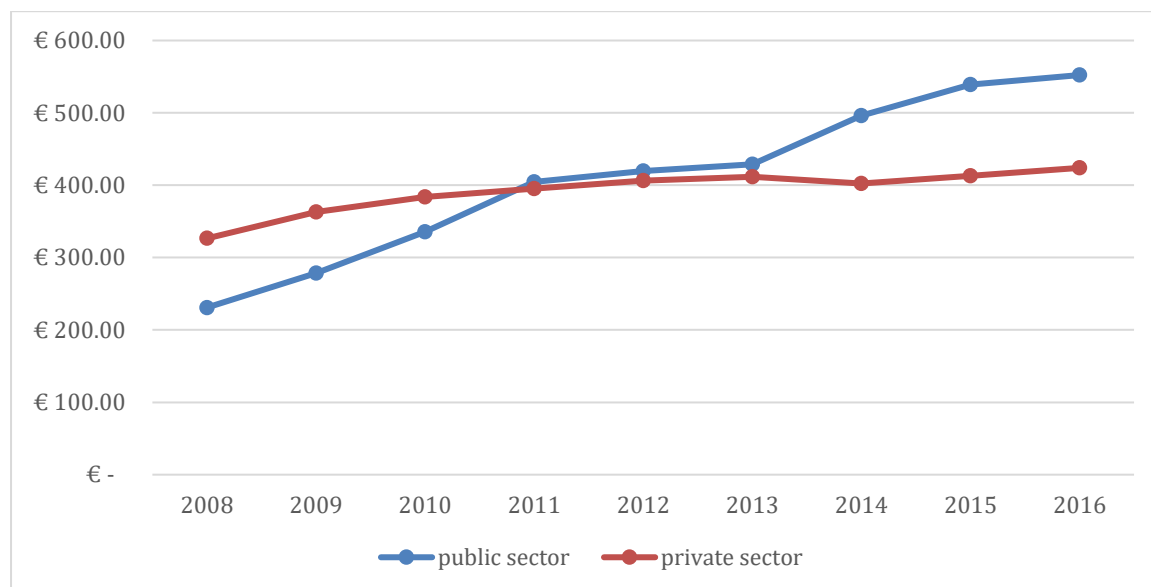
Recent wage and pension increases created extra pressures on the budget and crowded out investments to reduce infrastructure bottlenecks. The overall wage bill reached the level of 9.1 percent of GDP which is considered high compared to Kosovo's standards. It can be noticed that Kosovo is sensitive to the political business cycles. Driven by electoral promises, the wage bill increased by 27 percent in 2011 and by 25 percent in 2014. Moreover, as a share of total institutional expenditures, wages and salaries accounted for 46 percent of the total budget in 2014 – much higher than in other SEE countries or other countries in Eastern and Southern Europe. This data show the large importance of the recently introduced wage bill rule for preserving the international competitiveness of the economy.

Figure 6 below presents information about average salary in Kosovo, allowing for a comparison between public and private sector. What is important to notice is that until 2011 when a large increase in public sector wages took place, private sector wages used to be higher than public.

The increase of salaries in 2011 has been followed also with increase of wages in the private sector. It his private sector wage increase is not accompanied by same or higher productivity increase, then it harms the competitiveness of the Kosovo's economy.

⁶ Law no. 03/l-048 on public financial management and accountability, <http://gzk.rks-gov.net/ActDetail.aspx?ActID=8856>

Figure 6: Average wage in Kosovo, public vs private sector



Source: KPST data.

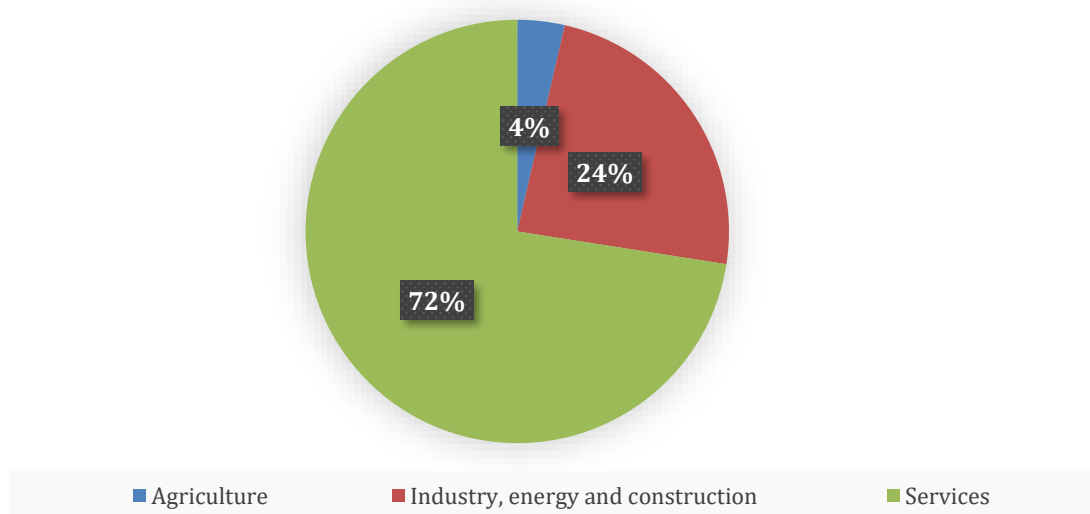
Subsidies and transfers also increased by 25 percent in 2014. For social benefits, under the category of subsidies and transfers, there is a long list of different beneficiaries: old age pensioners of 122 thousand, so called pension contributors above 41 thousand; families under social assistance schemes of 25 thousand; disability persons close to 20 thousand; conflict-related categories close to 13 thousand. Many categories accounted for another 35 percent of current spending on social benefits. New veteran benefits introduced in October 2015 put further pressure on the 2016 budget. The larger-than-expected number of veteran beneficiaries (35 thousand to date compared to the initial estimate of 13 thousand), led to an increase in spending on this budget line to over €60 million, more than double the original budget. With full implementation of new benefits, the fiscal envelope of conflict-related transfers reached 2 percent of GDP. The current expenditures' growth is crowding out capital spending, which has declined from 10.3 percent of GDP in 2010 to about seven percent in 2015. All social schemes are budget-financed schemes, none of them is a contributory scheme. By being such, they will remain a burden for the budget until an introduction of mandatory social contributions, an issue we raise in section 5 of this report.

2.6. Financial Sector

The banking sector in Kosovo remains good and has increased the lending. Capital ratios are well above regulatory criteria, with the system-wide capital adequacy ratio above 18 percent. Profitability of the banks remains high, with improvements in the asset quality (the system's aggregate NPL ratio is around 4, from 6.2 percent at end 2015).

Banking sector has recorded an increase of lending from 3 percent to above 10 percent in 2016. Despite the credit acceleration, liquid assets still cover some 40 percent of short-term liabilities, comfortably above prudential requirements. Credit depth is still low, with credit penetration at 37 percent of GDP, which is considered low although Kosovo has seen some deepening over the period 2014-16 with annual credit growth averaging 7 percent. This coincided with a sharp drop in lending rates, driven by increased competition among banks, cheaper funding, and improvements in contract enforcement. New lending has most recently focused on both corporate and household clients (which comprise two-thirds and one-third of banking sector loans, respectively). However, corporate loans still largely go towards less productive sectors, and new household lending is largely focused on consumer loans.

Figure 7: Distribution of loans by sectors as of September 2017



Source: CBK data, data series

From the chart, we see that majority of loans are concentrated in service sector with a share of 72 percent. It should be noted that the major category within the category of services are trade loans which contribute with 70 percent of the total services, followed by other services with 20 percent share and financial services by 10 percent.

2.7. Composition of the formal economy

Kosovo's production capacity is growing but it is still very small and not diversified and uncompetitive. The export base is very low and being concentrated in two or three metal products. The non-tradable sectors dominate output and employment. Services is the largest sector with value added at over half of GDP, and it contributed heavily to growth over the past decade. Tradable sectors, including agriculture (12 percent) and manufacturing (11.2 percent), are small.

Kosovo firms in general are small and very uncompetitive. An export of goods is very low, around 5 percent of GDP, and concentrated in small number of products. From the **Table 3** below we see that around 40 percent of total exports is coming from category of base metals and article from base metal.

Table 3: Exports of goods by sections

Item	2010	2011	2012	2013	2014	2015
01 Live animals	928	437	339	156	309	666
02 Vegetable products	12,217	12,766	14,359	15,408	18,541	15,538
03 Edible oils	100	45	59	46	19	41
04 Prepared foodstuffs beverages and tobacco	11,505	12,937	16,051	19,337	20,489	25,437
05 Mineral products	38,944	40,575	36,485	48,352	44,704	41,615
06 Product of chemical industries	1,363	2,298	2,476	1,739	2,608	2,870
07 Plastics. rubber and articles thereof	8,153	12,429	14,003	18,205	16,268	23,470
08 Leather and their articles	9,683	9,406	10,418	11,691	11,365	10,769
09 Wood and articles of wood	1,271	1,627	1,817	2,134	2,720	2,463
10 Paper and their articles	959	1,392	1,612	1,751	2,494	2,826
11 Textiles and textile articles	8,328	11,697	11,433	12,751	14,691	11,957
12 Footwear	51	86	154	651	1,777	3,031
13 Articl. of stone. plaster. ceramic product and glass	1,435	1,157	825	1,195	2,925	2,451
14 Pearls. precious stones. metals etc	26	22	95	113	10	5,215
15 Base metal and articles of base metal	186,131	193,143	145,813	143,911	167,387	157,732
16 Machinery. appliances and electric materials	10,872	15,276	16,659	12,590	13,379	12,316
17 Transport means	1,440	1,077	673	512	941	1,752
18 Optical. medical. photog. musical instr	527	583	298	562	299	337
19 Arms and ammunition	0	1	0	0	0	0
20 Miscellaneous manufactured articles	1,934	2,079	2,452	2,613	3,559	4,636
21 Works of art	91	132	81	127	58	172
Total	295,958	319,165	276,102	293,844	324,543	325,294

Source: Statistical Agency of Kosovo

Informal economy is estimated to be around 32 percent of GDP. A study made by European Commission in Kosovo states that the level of informality has shown some decline but it is still at very high levels. In nominal terms, informal economy is estimated to be 1.84 billion euro. This document has made some assumption about employment perspective estimating that 45 thousand workers are considered as working in informal sector, mainly in the area of agriculture with around 15 percent of informal employment, followed by real estate and other sectors. As reported by the European Commission, Kosovo needs to step up its efforts to fight informal economy and tax evasion (European Commission, 2016).

2.8. Firm growth and job creation over the last decade.

SMEs provide the bulk of employment. In Kosovo, about 8 out of every 10 jobs are in the SME sector, compared to an average of two out of every 3 jobs in the rest of Europe (based on reports on SMEs by KOSME, 2014, and European Commission, 2016). Meanwhile, firms with more than 250 employees account for less than 0.1 percent of all registered firms in Kosovo. With a young and rapidly growing population, a low labour participation rate and high unemployment rate, as noted above, generating

more jobs is critical for Kosovo's development. A dynamic and vibrant SME sector would help alleviate social pressures and emigration flows by providing jobs outside the public sector.

Micro firms dominate the formal private sector landscape. Data from the registry of formal firms covering 2005–2014 reveal almost all firms are micro firms (size 1–9). In 2005, 95 percent of firms were micro firms; by 2014 the share of micro firms had fallen to 91 percent because of the increase in the share of firms with 10–99 employees from 4.7 percent to 7.7 percent. Compared to other countries with recent jobs diagnostics, only Zambia has levels similar to Kosovo's; in Moldova the share of micro firms was below 60 percent, and in Peru less than 50 percent.

2.9. Labour productivity trends

Kosovo has a potentially large demographic dividend. Close to 40 percent of Kosovo's population is under the age of 19. The share of working age population will continue increasing in the coming years. Youth (under 15) present 25.7 percent of the population, while working age (15–64) accounts for 67.6 percent. Kosovo's ratio of working-age population to dependents is projected to increase from 1.88 in 2011 to 2.24 in 2021, and will not dip below the 2011 level before 2046. Only eight percent of Kosovo's population today are elderly, compared to 19 percent in the EU-28. This provides Kosovo with an opportunity to build a large and educated workforce that could help attract investments.

In addition to its young population, Kosovo benefits from a favourable geographical location and proximity to important markets, notably the European Union (EU). Finally, the prospect and the objective of EU membership, as reflected in the signed EU Stabilization and Association Agreement (SAA), is to provide an anchor for the Kosovo's development strategy.

Kosovo is also a small territory, with a high incidence of poverty. Kosovo's population of 1.8 million ranks number 146 in the world. Being a small territory imposes several challenges to growth, such as a small internal market, narrow production base, with limited scope for diversification and vulnerability to economic shocks.

Higher and more sustainable growth (that is, less reliant on consumption financed by remittances and more reliant on investments in the tradable sector and exports) is needed to bring incomes up to regional standards and make a significant dent in Kosovo's unacceptably high unemployment rate.

2.10. Future economic trends projections, with a focus on key industries with potential for growth and job creation.

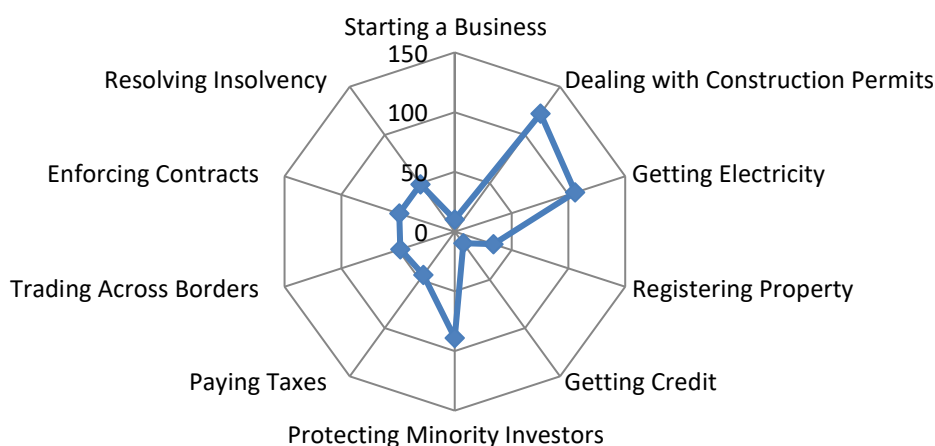
The medium-term growth outlook is forecasted to be positive, but not sufficient for Kosovo's needs. Implementation of large infrastructure projects should have impact on boosting investments and help expand the production base. At the same time, removal of obstacles for bank lending and more competitive labour market will support medium-term growth in the range of around 4 percent in the medium term. This rate of growth is above the regional averages but still not enough to rapidly reduce Kosovo's high unemployment and close the income gap with the rest of Europe.

The business environment should be improved to reduce the high costs of doing business, improve productivity and attract private investment in productive sectors. This could eventually include: (i) reducing the regulatory burden on businesses, tackling corruption and reducing unfair competition by fighting informality, (ii) reducing the connectivity and energy bottlenecks by accelerating IFI-financed

investment; (iii) strengthening access to credit and improving the bankruptcy framework; and (iv) strengthening labour force skills through better education and training.

World Bank Doing Business Indicators for 2018 show some improvements when Kosovo was ranked under 40th position compared to 60th position a year before. Kosovo was considered as being member of top ten countries on reforms. The report also shows that Kosovo has made progress in almost all indicators but when it comes to construction permits and getting electricity Kosovo is ranked very low.

Figure 8: Kosovo DB 2018 Rank



Source: World Bank Doing Business Report for 2018

We see that many countries are trying to do reforms in order to score better in this assessment, which does not necessarily mean that they are more attractive compared to others.

Besides the efforts to improve competition based on the findings of the Doing Business report (and the area covered in the ranking), further reforms are needed and decisive steps need to be taken to fight corruption and improve governance.

- Mandatory centralized procurement should be implemented and the e-procurement platform used, despite opposition by vested interests.
- The Privatization Agency of Kosovo (PAK) institutional and governance structure should be overhauled to accelerate the stalled privatization/liquidation process.
- Further, POE governance (e.g. supervisory boards with independent members that meet fit-and-proper criteria) and the institutional role of the anti-corruption agency should be strengthened and transparency (e.g. tax debts) improved.

These structural changes can help improve competitiveness. In addition, measures to support public investment could be considered, including:

- channelling remittances into productive investment through Diaspora bonds;
- deepening corporate access to long-term financing; and
- shifting unproductive social spending into investment.

3. LABOUR MARKET TRENDS

3.1. Demand side: structure of growth and job creation

Kosovo's economy has grown steadily over the last decade, but the sources of growth are unsustainable having in mind the weak domestic tradable goods sector.

Average GDP growth has been among the highest in the region (even during the global crisis) at around 3.5 percent during 2008-2016 (see **Table 4**). But growth rates have been largely driven by high level of remittances (14,8 percent of GDP in 2016) as well as high level of institutional spending on wages (46 percent of institutional expenses in 2014) and infrastructure (annual average of 9 percent of GDP since 2008). Remittances and a bloating public sector have driven up consumption which accounted for 2.6 percentage points of the growth during this period and the services sector which accounts for most of the sources of growth (see). On the other hand, most infrastructure investments have gone for basic needs due to Kosovo's low starting point and are yet to improve Kosovo's competitive position. FDIs, on the other hand, have mostly been oriented towards real estate sector and much less on investments in tradable goods. As a result, the productive base of the economy continues to be low and ensures low coverage of imports (14 percent), which is a drag on growth. Domestically most activity is focused on agriculture and services, whereas manufacturing is limited.

Table 4: GDP growth by countries in the Western Balkans

Country	2013	2014	2015	2016	2017
Bosnia and Herzegovina	2,4	1,1	3,2	3	3,2
Kosovo	3,4	1,2	4,1	3,4	3,7*
Montenegro	3,5	1,8	3,2	5,1	3,6
Republic of North Macedonia	2,9	3,5	3,7	2,2	3,5
Serbia	2,6	-1,8	0,7	2,5	2,8
Albania	1	1,8	2,8	3,4	3,7

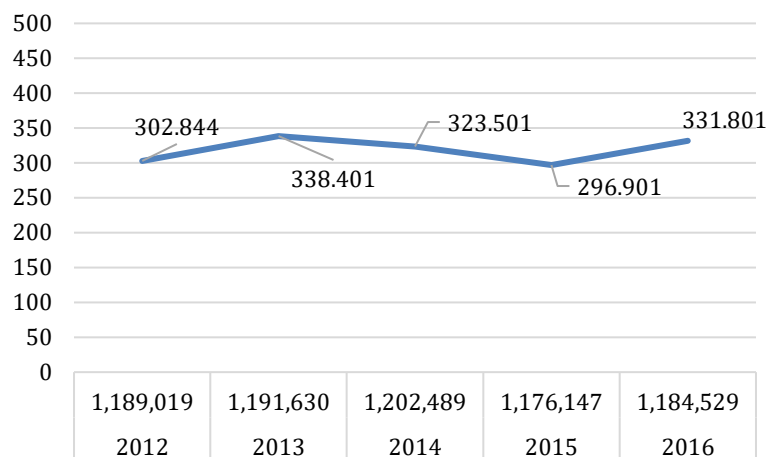
Note: *projection

Source: IMF World Economic Outlook (2017) and Central Bank of Kosovo estimates

The structural weaknesses of the economy and the youth bulge have led to a situation where growth has not translated into an increase in the employment rate.

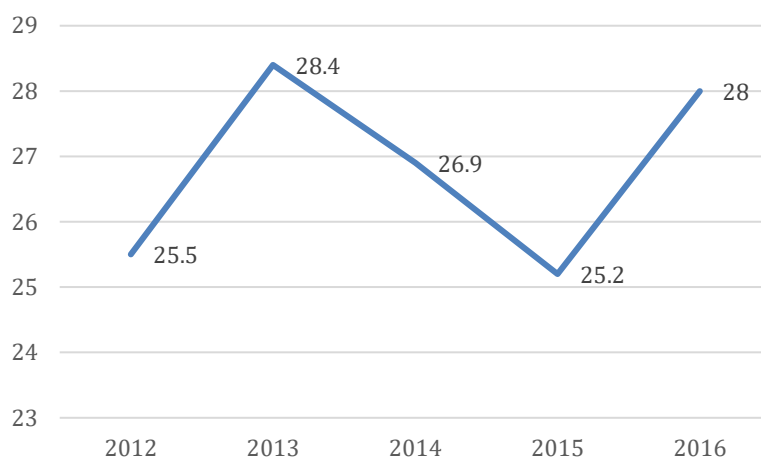
Kosovo's employed workforce has remained almost stagnant as an absolute number, witnessing only small cyclical fluctuations (see **Figure 9**), moving from around 300,000 to 330,000. This stagnation in the number of jobs is also reflected in the relatively static employment rate (Figure 2). A large portion of the workforce is employed in the public sector: there were 79,538 people on the payroll of budget organizations in 2016. With regard to the private sector, the service and commerce orientation of the economy means that an unusual amount of employment (36 percent) comes from micro firms (see **Table 5**). Nonetheless, SMEs and large firms employ the rest of the 64 percent of the workforce, even if they are less than 10% of the total population of firms.

Figure 9: Total workers employed in Kosovo (2012-2016)



Source: LFS (2012-2016)

Figure 10: Employment rate (2012-2016)



Source: LFS (2012-2016)

Table 5: Employment by firm sizes in Kosovo (%)

Type of Firm	Share of total firms	Share of jobs
Micro	91%	36%
Small & Medium	7,7%	29%
Large	0,5%	35%

Source: LFS (2012-2016)

Table 6: Number of workers by type of employer (administrative data)

Type of employer	2013	2014	2015	2016	Average annual growth (2013-2016)
<u>PUBLIC SECTOR</u>					
Budget Organizations	78,194	79,021	78,437	79,538	0,6%
<u>PRIVATE SECTOR</u>					
LLC	46,971	52,803	54,588	64,201	11,1%
Individual business	45,758	48,559	46,193	46,762	0,8%
Self-employed	25,497	24,959	25,317	25,219	-0,4%
Shareholder company	22,241	25,645	22,981	22,856	1,5%
<u>NGOs</u>					
NGO	5,939	6,168	5,885	6,458	3,0%

Source: Kosovo Pensions Trust Fund (Annual Reports 2013-2016)

Jobs are currently slightly moving away from manufacturing towards commerce and, to a lesser extent, services. The geographic concentration of firms is high, especially in Prishtina. Micro firms generate a third of new jobs. They rarely grow, but their survival rate is increasing.

In terms of sectors of employment, the highest number of jobs in Kosovo is in the wholesale and retail trade sector (see **Table 7** for reference). This reflects the service orientation of the economy that relies heavily on diaspora remittances which are largely used for consumption. Manufacturing (13.2 percent) remains the second largest employment sector followed by construction (11.5 percent). Public sector services (education, administration and human health and social work) capture roughly a quarter of all jobs. The heavy geographical concentration of jobs is illustrated by the fact that Pristina accommodates more than third of all firms and 54 percent of all jobs.

The World Bank's Jobs Diagnostic notes that 34 percent of job creation over the last decade has come from micro firms, which are usually family owned. But a lot of this is vulnerable employment with little prospects for growth into sustainable businesses. The report looked at ten-year data and found that the average micro firm adds only one job during this period, whereas the average large firms that survived started at 300 and grew to almost 800. Around half of firms in Kosovo do not survive after five years. Nevertheless, one positive sign is that firm survival rates "have been increasing over time – only 17 percent of firms that started operations in 2005 made it into the 6th year, compared to 31 percent of firms that started operations in 2009."

Table 7: Employment by economic activity in Kosovo

Sector	2016	Change since 2012
Wholesale and retail trade	14,8	1,4
Manufacturing	13,2	-1,1
Construction	11,5	2
Education	10,6	-1,4
Public administration and defence	7,4	2,4
Accommodation & food service	6,4	1,6
Human health and social work	5,6	-1,9
Agriculture, forestry and fishing	4,2	-0,4
Transport and storage	3,2	-0,3
Information and communication	2,2	-0,1
Finance and insurance	1,9	-0,3

Source: LFS (2012-2016)

3.2. Labour force activity and inactivity

Labour Force Surveys by the Kosovo Agency for Statistics (KAS) suggest that Kosovo has the lowest labour force participation rate in the Western Balkans and Europe. This is explained mainly by the very low female participation rate and the high share of youth in the working age population who attend higher education.

Official statistics produced by KAS suggest that the labour force activity rate in Kosovo is the lowest in the Western Balkans and Europe (Figure 11 and Figure 12), standing at 38.7 percent in 2016. The participation rate has been largely stagnant over the last few years (as indicated by Figure 13 and Figure 14). The low rate of activity is caused first and foremost by the wide gender gap which is the highest in the region (as indicated by Figure 14). Age-level data for women (Figure 15) suggest that there is a significant age difference and points to a higher than average rate among younger women (e.g. 25-34 age group), which shows a positive long-term trend.

Figure 11: Activity rate by country and year

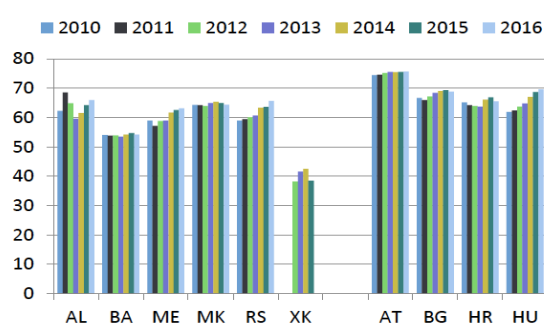
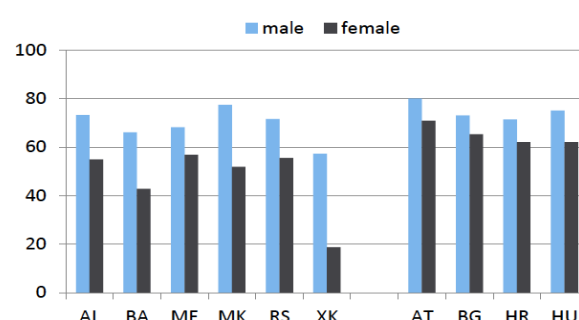
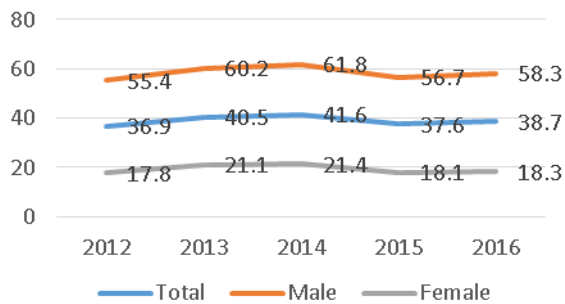


Figure 12: Activity rate by gender and country (2015)



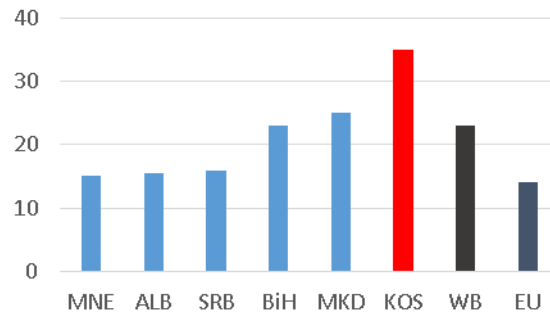
Source: World Bank Group & Vienna Institute for International Economic Studies: "Western Balkans Labour Market Trends (2017)"

Figure 13: Labour force participation in Kosovo by year and gender.



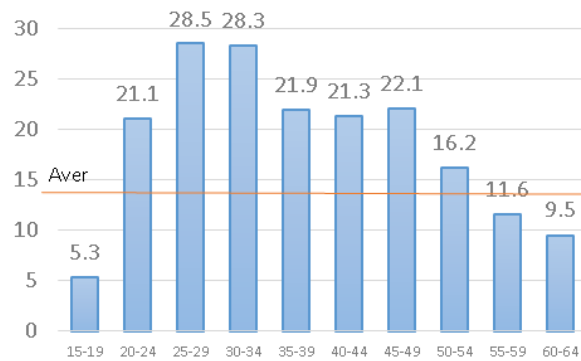
Source: KAS Labour Force Surveys (2012-2016)

Figure 14: Gender Gap in Labour Force Participation rate



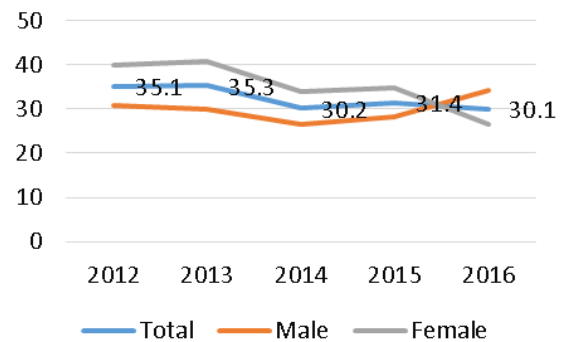
Source: World Bank

Figure 15: Female labour force participation rate by age groups (2016)



Source: LFS 2016

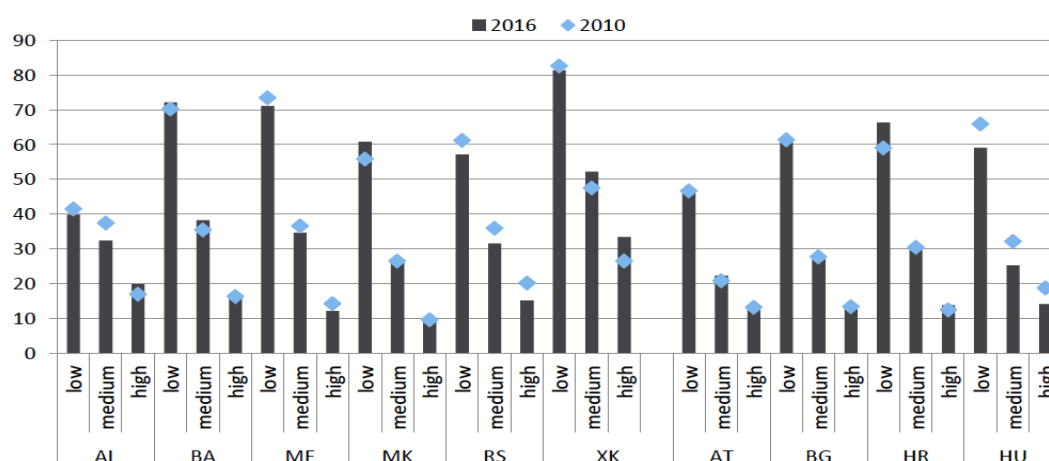
Figure 16: Share of youth who are neither in employment, education nor training (NEET), 2012-2016



Source: LFS 2012-2016

The low participation rate is also caused by the high share of youth in the working age population attending higher education. Another slightly positive trend (illustrated in **Figure 16**) is the slight reduction in the percentage of inactive youth. Namely, the share of those who are not employed nor attending education or training (NEET) has decreased between 2012 and 2016 (from 35.1 percent to 30.1 percent). This to some extent is a result of the increase in higher education enrolment, with the opening of new public universities and private providers of higher education. In terms of education levels, the inactivity rate has slightly dropped for the medium and highly educated and has increased for the poorly educated (as illustrated in **Figure 17**).

Figure 17: Inactivity rate by educational attainment in Western Balkans (2010-2016)



Source: World Bank Group & Vienna Institute for International Economic Studies: “Western Balkans Labour Market Trends (2017)”

New household survey commissioned by the Millennium Challenge Corporation (MCC) suggest that the inactivity rate might not be as high as suggested by KAS and is somewhat closer to the regional average. KAS surveys may not be capturing the real number of unpaid workers, especially farmers.

The MCC commissioned a new Labour Force and Time Use Survey which aimed to primarily understand the gender gap and behaviour of inactive women. The 8,500 household survey (implemented by Social Impact) utilized the same Eurostat methodology used by KAS but introduced more stringent controls. The results portray a starkly labour market picture. The difference in the labour force participation rate is illustrated in **Figure 18** and indicates a participation rate almost 14 percentage points higher. The MCC report (published in draft format in November 2017) will be released in full in March 2018.

Figure 18: Difference in the labour force participation rate between KAS and MCC

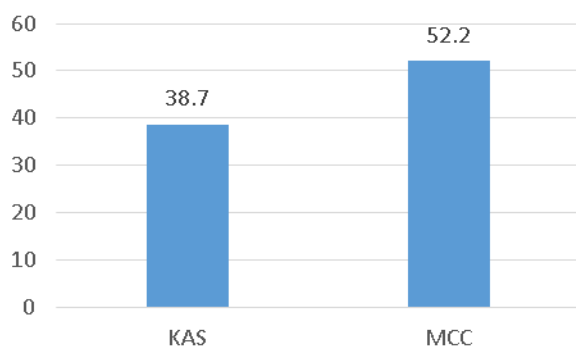
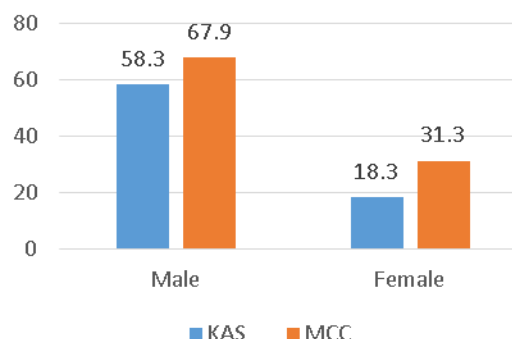


Figure 19: Difference in labour force participation rate between KAS and MCC (by gender)



Source: LFS 2016 & Social Impact (MCC) 2017

The draft notes that the difference in the number results from higher focus during the implementation to capture unpaid workers, particularly in the agriculture sector. Substantively, the key reason for the

difference in the total participation rate is the considerably lower gender gap. The new MCC survey puts the female participation rate at 31.3 percent, almost double the KAS rate (see **Figure 19**) and closer to regional averages.

Even with the new data, participation rates (including female participation) remain the lowest in the region. The reasons for the inactivity vary by gender and the main ones include social norms, perception on lack of necessary skills and belief that there is no work available (discouraged workers).

The World Bank’s Jobs Diagnostic notes that “family responsibilities are the main reason for women’s inactivity”, but that there is a demographic difference, as “responsibilities are less of a driver of inactivity for women with more education or those in younger cohorts.” The Labour Force Survey on the other hand notes that almost half of inactive men (49.9 percent) see the lack of education and training as the main reason for not looking for work (see **Table 8**). A considerable share of women (14.5 percent) and men (20.9 percent) are also discouraged workers who think there is no work for them. There is evidence also that remittances play a role in reducing activity. UNDP’s Kosovo Remittance Survey from 2012 noted that “for female-headed households, receipt of remittances is associated with increased economic inactivity: for those unemployed, a decreased likelihood of seeking employment or of registering with the Public Employment Services.”

Table 8: Main reasons for not looking for work, by gender

Reason	Men	Women
Looking after children and adults unable to work	0	3.2%
Own illness or disability	6.4%	1.7%
Other personal or family responsibilities	7.3%	53.6%
Education and training	49.9%	21.2%
Retirement	2.9%	1.0%
Belief that work is not available	20.9	14.5%
Awaiting recall to work (persons on lay-off)	0.5%	0.1%
Other reasons	11%	3.8%
No reasons given	1%	0.8%
Total	100%	100%

Source: Kosovo Agency of Statistics (2015). LFS 2014 data

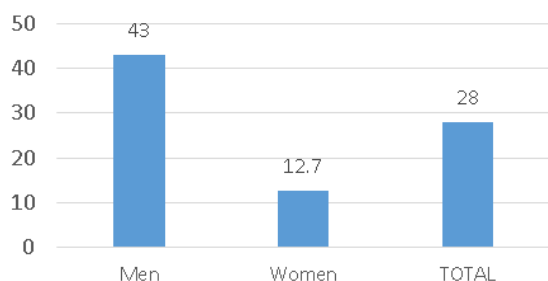
3.3. Employment and unemployment

According to the LFS by KAS, Kosovo has the lowest employment rate in the region, especially among women & youth. There is a stark difference in employment rates by level of education, as the labour market needs skills and has more unskilled workers than it can absorb.

In total, according to KAS LFS, 28 percent of the working age population is employed. This is the lowest employment rate in the region both as a total (**Figure 20**) and in terms of youth employment (**Figure 21**). **Figure 20** illustrates that there is a sharp difference in the employment rate of women (12.7 percent) and men (43 percent). Men and the highly educated (tertiary level, 57 percent) are the only groups with higher than average employment rates (see **Figure 21**). The labour market places a considerably high premium on workers with a higher education. Of those highly educated, 2/3 are

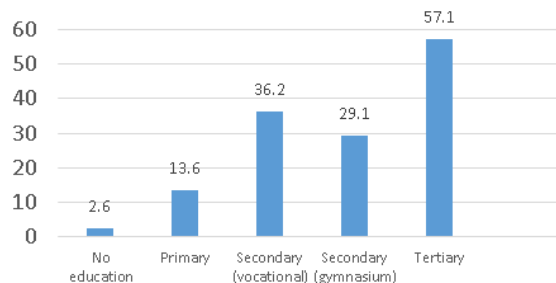
employed in the public sector whereas most of those with only primary education are in agriculture (Figure 24).

Figure 20: Employment rate by gender in 2016



Source: LFS 2016

Figure 21: Employment rate by level of education obtained (2016)



Source: LFS 2016

Figure 22: Employment rate by year and country

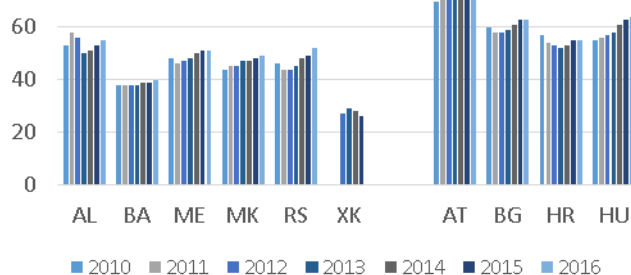
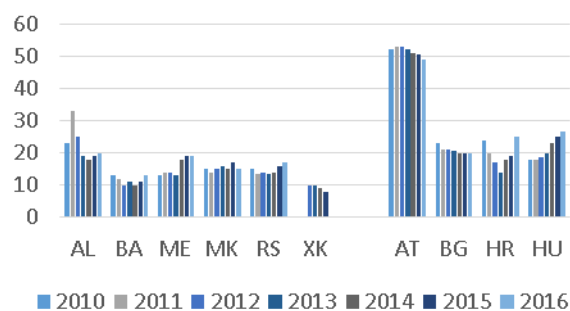
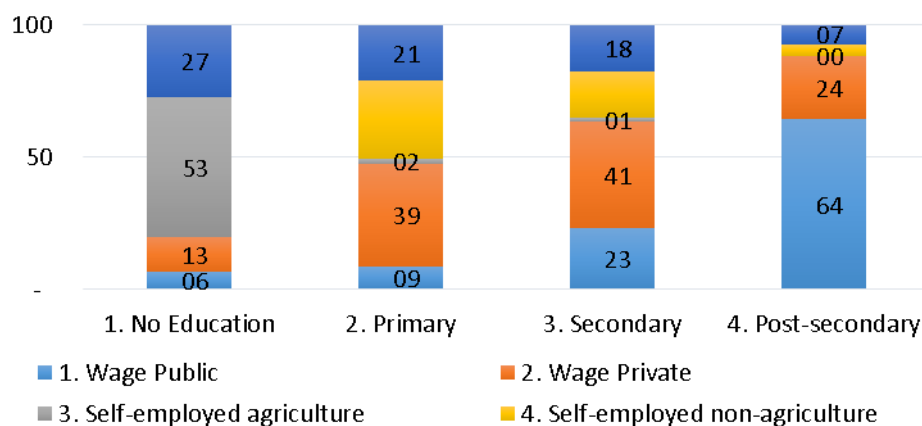


Figure 23: Employment rate of youth (15-24 age)



Source: World Bank Group & Vienna Institute for International Economic Studies: “Western Balkans Labour Market Trends (2017)”

Figure 24: Employment types by Education, age 15-64

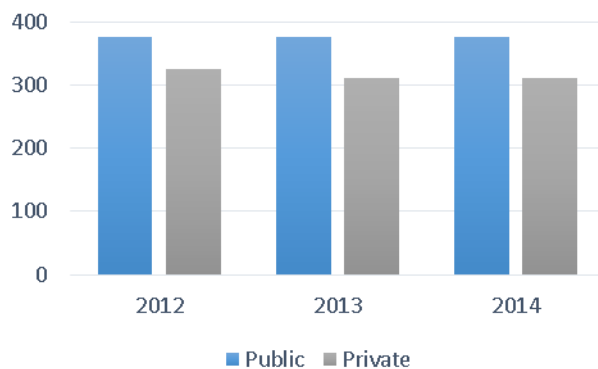


Source: World Bank, Kosovo Jobs Diagnostic (2017)

The public sector is an important source of employment and pays higher than average wages. It is also reducing private sector wage competitiveness.

Kosovo has high labour costs by regional standards. This is due to the impact of remittances on living standards, increased reservation wages, but also high public sector wages. Public sector wages were increased by 27 percent in 2011 and 25 percent in 2014. The trend in average public sector wages is illustrated by the IMF graph in **Figure 26**. As a share of institutional expenses, wages accounted for 46 percent of the total in 2014 – “much higher than in other SEE countries or other countries in Eastern and Southern Europe”. Public sector wages have become higher than private sector ones (**Figure 25**) and as such have reduced the competitiveness of the private sector. Wages are naturally higher for those with higher level of education (**Figure 28**) and those living in Prishtina region (**Figure 27**).

Figure 25: Mean wage per month: public vs. private - only wage workers



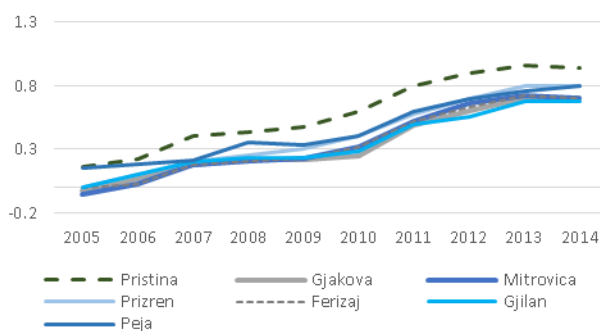
Source: World Bank, Kosovo Jobs Diagnostic (2017)

Figure 26: Average Public Sector Quarterly Wages



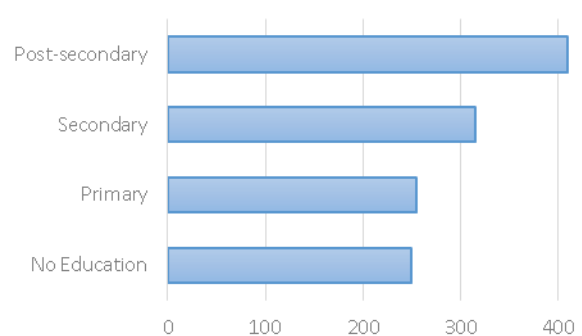
Source: IMF: Stand-By Review (2017)

Figure 27: Average real wage by region



Source: World Bank, Kosovo Jobs Diagnostic (2017) using LFS data

Figure 28: Mean earnings per month by education level excluding unpaid workers

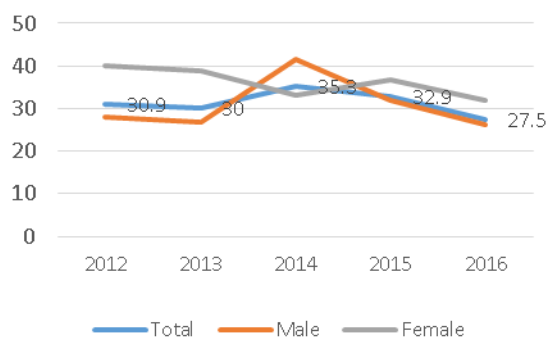


Source: IMF (2017)

According to KAS KFS, unemployment is a chronic problem for Kosovo, especially for young people and women.

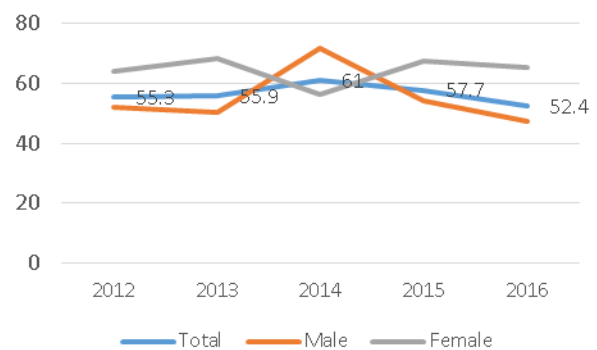
As illustrated by **Figure 29**, the unemployment rate in Kosovo was 27.5 percent in 2016 and has been at similar levels over the last few years (with small cyclical movements related to economic cycles). The labour market is particularly difficult for young people, women and the poorly educated. Women not only have a lower activity rate but also a higher unemployment rate than men (36.6 percent for women compared to 31.8 percent for men). In 2016, according to KAS the youth unemployment rate was 52.4 percent, marking a small decline since 2012 (**Figure 30**). The weak performance of the poorly educated in the labour market is illustrated in **Figure 31**, as unemployment is almost 50 percent among those with no education and 18 percent among the highly educated.

Figure 29: Unemployment rate according to KAS (2012-2016)



Source: LFS (2012-2016)

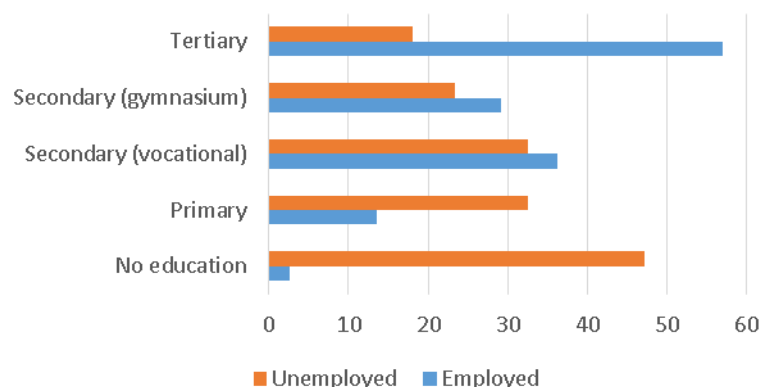
Figure 30: Youth unemployment rate according to KAS (2012-2016)



Source: LFS (2012-2016)

The consensus analysis, elaborated in Kosovo’s Sector Strategy for Employment and Social Welfare is that poor employment performance of young people comes as a result of many factors: “(i) the quality of education at all levels and the inconsistency of educational programmes with market requirements, (ii) the lack of practical work at school and enterprise, which is particularly important in the case of vocational education, (iii) limited information on labour market demands, (iv) lack of career counselling and orientation, and (v) the lack of work experience and contacts (networking) with potential employers, which is also related to the lack of practical work mentioned above, thus making the transition from school to work difficult.”

Figure 31: Employment and unemployment rate by level of education (2016)

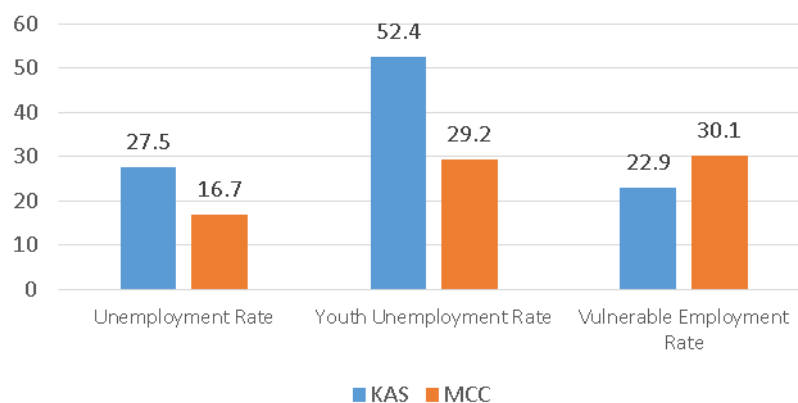


Source: LFS (2012-2016)

New data by MCC suggests that unemployment, including youth unemployment, might be much lower than initially thought. Many who KAS considers as unemployed might be engaged as unpaid family workers or holding vulnerable informal jobs.

The new 8,500 household LFS conducted by Social Impact on behalf of MCC suggests that the unemployment rate in Kosovo might be actually considerably lower than official statistics suggest. **Figure 32** illustrates the comparison between the KAS and MCC rates of total unemployment, youth unemployment and vulnerable employment. According to MCC LFS, the unemployment rate stands at 16.7 percent whereas the youth unemployment rate is at 29.2 percent. These rates are much more in line with regional averages and in some cases (including total unemployment) actually lower than some countries. The difference is explained by more employment actually being captured from the informal sector in the MCC survey. This is also indicated by the higher rate of vulnerable employment in the MCC LFS (informal workers who are treated as unemployed according to KAS).

Figure 32: Unemployment and vulnerable employment comparison between KAS and MCC



Sources: LFS (2016) & Social Impact for MCC (2017)

Most unemployment is long-term unemployment, even among prime age workers. Integration of youth in the labour market is problematic due to poor transitions from the education system as well as, in the case of women, social norms.

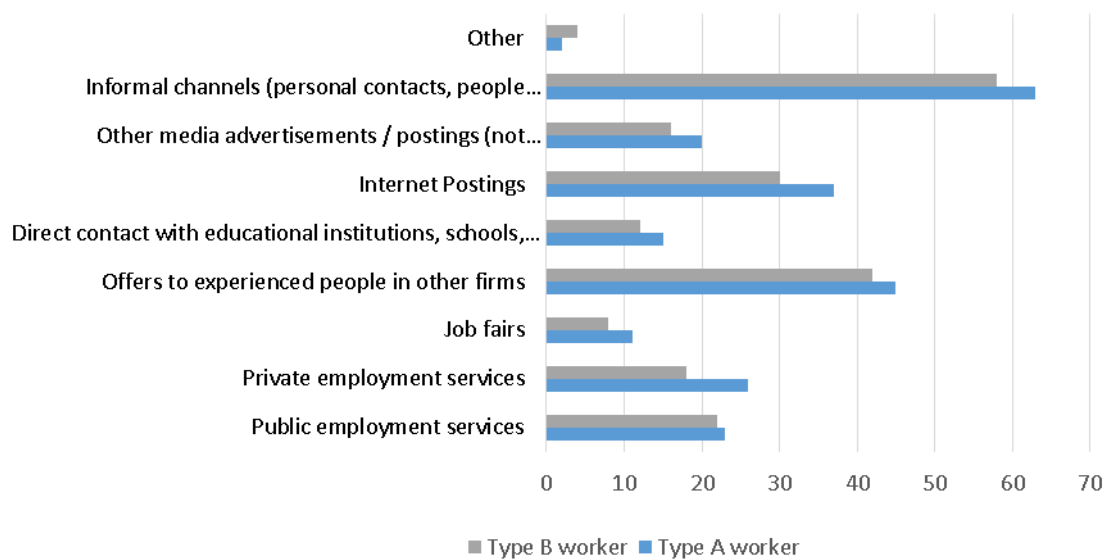
Data from KAS LFS suggests that among the unemployed in 2016, 65.5 percent were long-term unemployed. Transitions to employment from inactivity are made difficult by lack of jobs but also other social structural constraints such as skills mismatches (addressed in next section). In 2015, there was one vacancy per 10 jobseekers at the Public Employment Service. The World Bank’s Jobs Diagnostic notes that “the difficulty of re-employment is present even among prime age adults – while in the 15–19 age cohort among men only 40 percent of unemployed were without employment for over 12 months, this share reaches close to 80 percent already in the 25–29 age group, and remains high throughout the entire 25–59 age range.”

Informal channels are the most common form of recruitments, followed by poaching from other firms, suggesting that institutional channels are not working at optimal levels. There are also weak communication channels between firms and educational institutions.

Data suggests that the institutional systems for matching firms and jobseekers (such as online portals or Employment Offices) are not the preferred mechanism. **Figure 32** illustrates main channels of recruitments by firms and shows that almost 2/3 of firms recruited from informal channels (personal

contacts, people recommended by others) for more skilled Type A occupations (management functions) and a slightly lower share (60 percent) of firms relied on the same methods for Type B jobs. The World Bank Jobs Diagnostic notes that there is a difference in how formal and informal firms recruit, as formal firms use more of the institutional channels (PES and online platforms) than informal firms. Furthermore, firms also have poor links with education institutions. The World Bank’s Jobs Diagnostic report notes that “only 17 percent of firms reported being in regular contact with educational/training institutions for hiring Type A workers (6.7 percent for Type B workers)”

Figure 33: “Channels of recruitment”



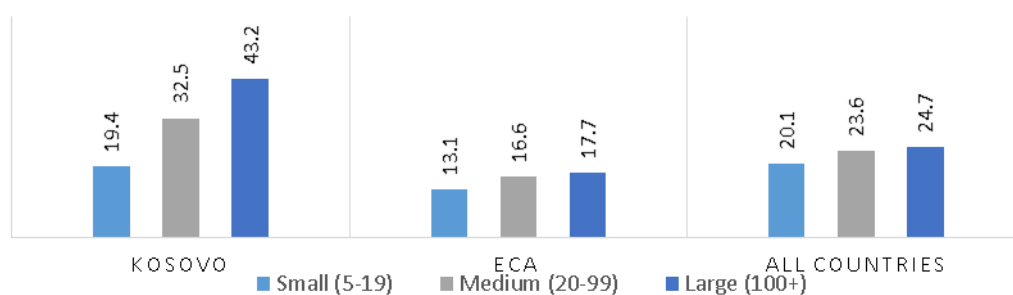
Source: World Bank estimates based on Employer STEP survey (in World Bank: Kosovo Jobs Diagnostic)

3.4. Labour force skills

There is evidence to suggest that high rates of labour force inactivity and unemployment are also caused by the low employability of the labour force and mismatches between demand and supply.

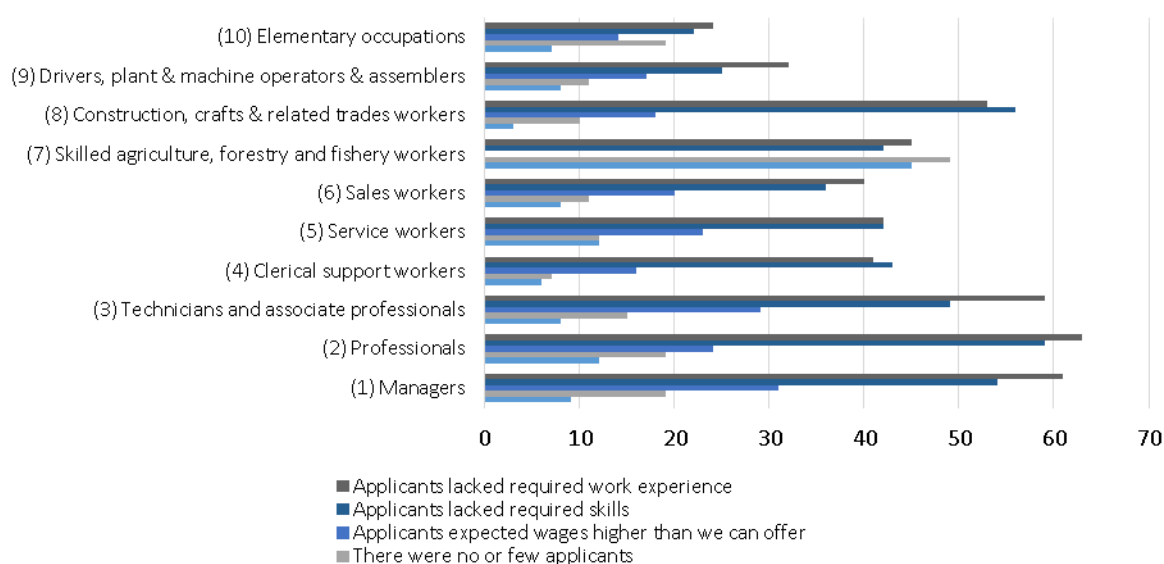
KAS’ Employer STEP survey analysis conducted by the World Bank finds that inadequate skills are not the main business constraint for firms in Kosovo, but they are more so than in other ECA countries (see **Figure 34**). While not a top constraint, 25 percent of firms in Kosovo saw it as a “major constraint”, compared to 14 percent in ECA and 21 percent across all countries. **Figure 34** also shows that the inadequately educated workforce is more of a problem the bigger the size of the firm. Furthermore, the analysis of the STEP survey also shows (**Figure 35**) that in a majority of cases, when firms are hiring, the biggest deficiency is the lack of experience and skills – especially for managers, technicians and professionals. There is also a variation in terms of economic sectors – agro and industry seem more constrained by inadequate education/experience than other sectors.

Figure 34: Percentage of firms identifying inadequately educated workforce as a major constraint.



Source: World Bank estimates based on Employer STEPP survey (in World Bank: Kosovo Jobs Diagnostic)

Figure 35: Types of problems faced when hiring

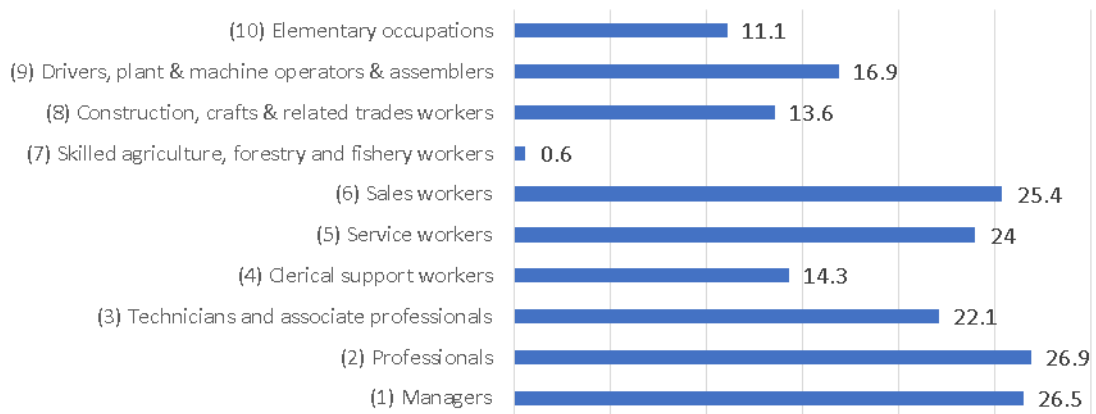


Source: World Bank estimates based on Employer STEPP survey (in World Bank: Kosovo Jobs Diagnostic)

Many firms struggle to find high skilled workers (particularly technical and management level) and those with highest likelihood to grow have the most difficulty in their search. Most firms blame the education system for the problem.

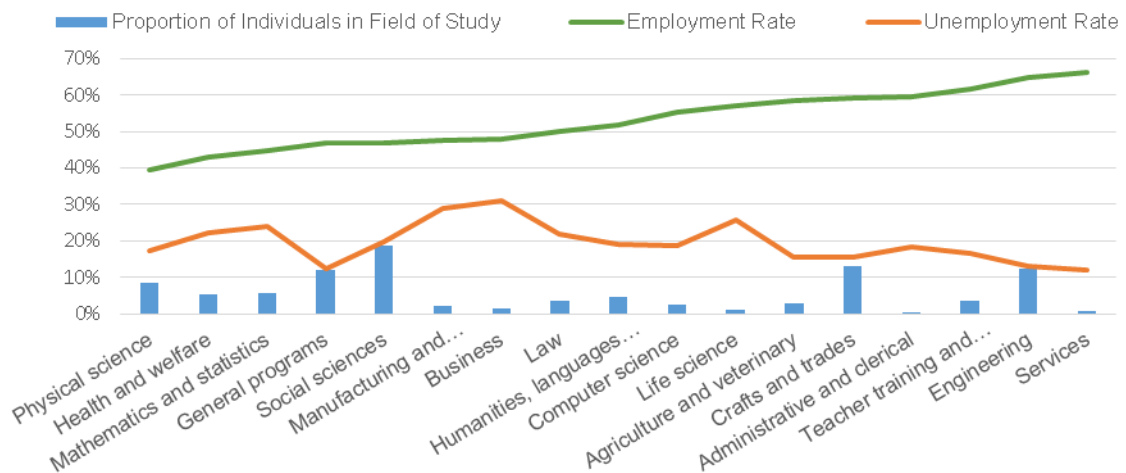
The analysis of the STEP survey suggests that firms in Kosovo in recent years have mostly hired highly skilled workers (Type A) such as managers, professionals and technicians. They represent the largest category of new hires (Figure 36). Due to the strength of commerce and services in the economy, service and sales workers were also in high demand. This survey data with employers is confirmed by the recent MCC' LFS which suggests that the employment rate of technical people such as engineers and those studying services is the highest (see Figure 37). The higher education system seems to “produce” many people with skills that the labour market doesn't need (see unemployment rates of graduates in many fields in Figure 37). STEP data suggest that precisely the kind of firms that have the biggest chance to grow and create jobs have the most difficulty finding workers. Figure 38 to Figure 41 show that innovative firms, large firms, foreign firms and firms with international contacts (including exporters) are the types of firms facing the greatest difficulty in finding workers.

Figure 36: Occupational categories of new hires



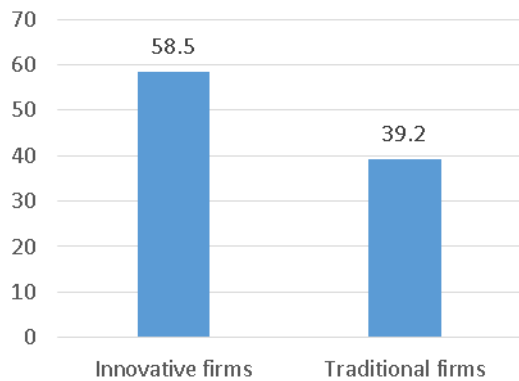
Source: World Bank estimates based on Employer STEP survey (in World Bank: Kosovo Jobs Diagnostic)

Figure 37: Correlation between field of study and employment / unemployment



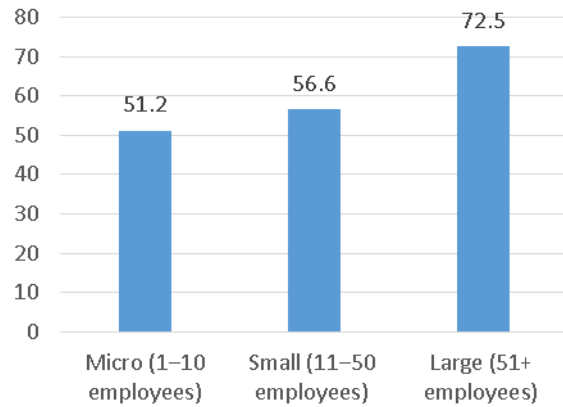
Source: Social Impact for MCC (2017)

Figure 38: Percentage of firms having a difficulty finding Type A workers (by level of innovation)



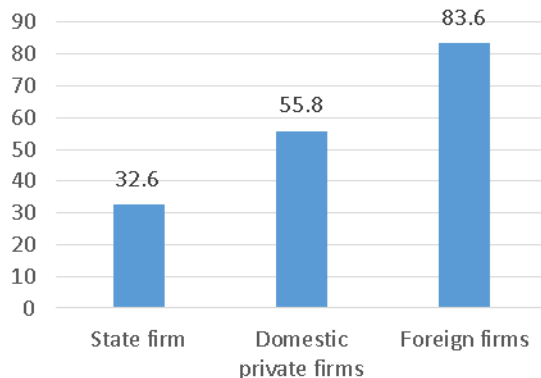
Source: Employer STEP Survey (World Bank Jobs Diagnostic)

Figure 39: Percentage of firms having a difficulty finding Type A workers (by size)



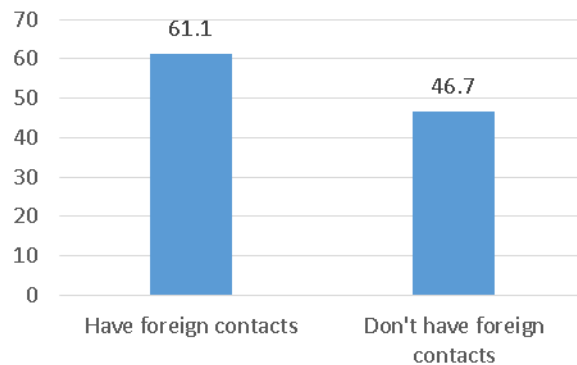
Source: Employer STEP Survey (World Bank Jobs Diagnostic)

Figure 40: Percentage of firms having a difficulty finding Type A workers (by ownership)



Source: Employer STEP Survey (World Bank Jobs Diagnostic)

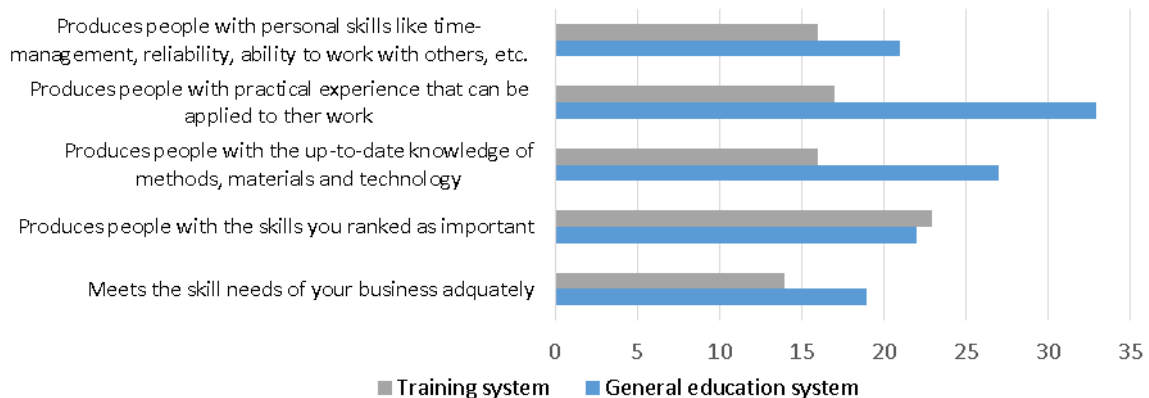
Figure 41: Percentage of firms having a difficulty finding Type A workers (by possession of foreign contacts)



Source: Employer STEP Survey (World Bank Jobs Diagnostic)

Much of the blame on the issue of skills is put on the public education system. Between a fifth and a third of firms generally disagree that the general education system does a good job in preparing the workforce, especially in terms of practical and up-to-date knowledge (see **Figure 42**). A USAID Workforce Readiness Study also notes that “employers also report that employees lack practical, transferable ‘soft’ skills such as communication (in foreign or native languages), negotiation, analytical problem and conflict solving, mathematic-numerical skills, and client-oriented services.”

Figure 42: Share of firms which disagree with the following statement about the education/training system



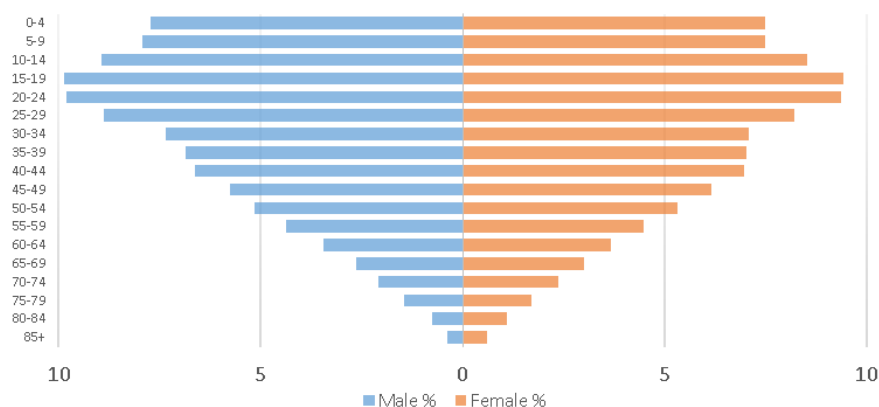
Source: Employer STEP Survey (World Bank Jobs Diagnostic)

3.5. Demographic trends and migration

Kosovo is one of the few countries in the region experiencing an increase in the working age population and the peak of the youth bulge is about to hit in the next few years. Migration to European countries will likely continue.

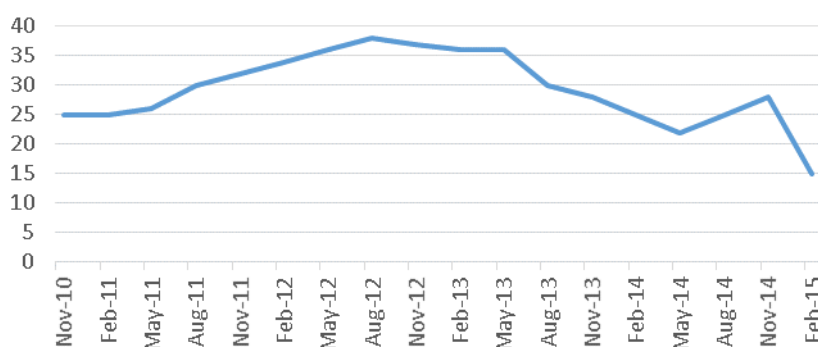
Kosovo has the youngest population in Europe and the demographic dividend will reach its peak during the next decade. As illustrated by the demographic pyramid in **Figure 43**, the biggest age groups in the population are the 15–19 and 20–24. The largest demographic cohort of the population (post-conflict baby boomers born from 1999-2002, around 140,000 of them) will enter the labour market over the next three-four years (2018–2021). Pressure on the labour market was artificially “relieved” in recent years by massively expanding access to higher education (new public universities), and public and private universities served a total of 120,000 students in 2016. An additional challenge is the fact that Kosovo has to accommodate migrant returnees from Western Europe from the mass wave of migration in 2014 and 2015 (around 90,000). These returnees (90,000), active students (120,000), and post-conflict baby boomers reaching maturity (140,000) will put enormous pressure on an economy that in total had roughly 300,000 formal jobs in 2015. Part of this pressure might be relieved through migration, for which there is continued interest (**Figure 44**).

Figure 43: Kosovo population pyramid in 2017



Source: Kosovo Agency for Statistics: Population Projections (2013)

Figure 44: Plans to migrate (percent)



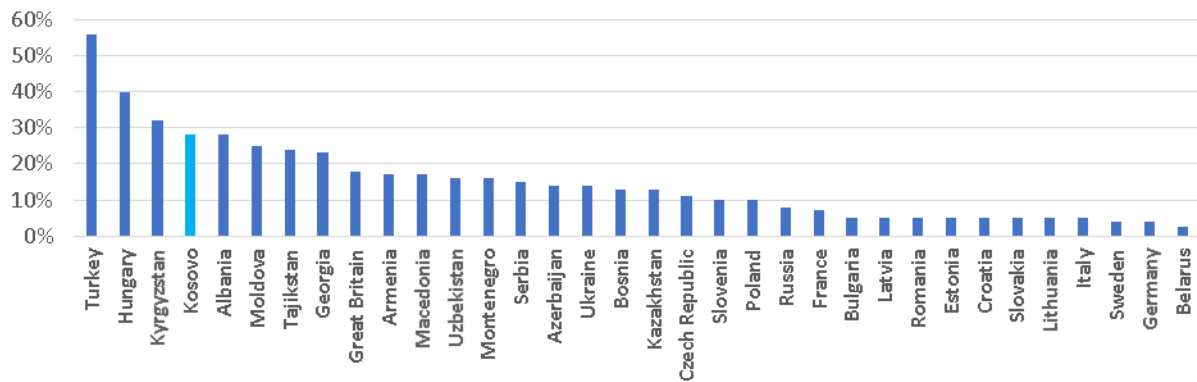
Source: UNDP Public Pulse Surveys (2010-2015)

3.6. Informality and labour conditions

Labour informality in Kosovo is high even by the already high regional standards, especially in agriculture and construction sectors, as well as among the youth and those with lower levels of education.

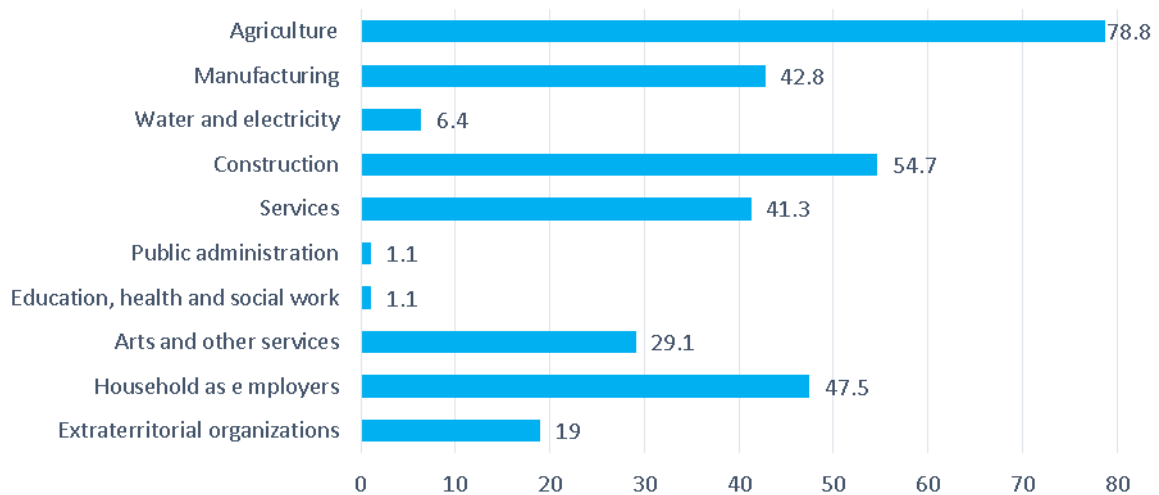
Over a quarter of Kosovo’s workers are estimated to be in the informal sector. This is if we define informality as consisting of unpaid family workers, self-employed workers in small firms, self-employed workers in unprofessional occupations and workers in small firms (five or fewer employees). By this definition, just over a third of workers would be classified as informal. The other 65.2 percent of employed workers are counted as formal sector workers, but as the discrepancy between KAS and MCC data suggested (Figure 32), the data may be unreliable because there is substantial underreporting of incomes. As Figure 46 shows, the vast majority of workers in the agriculture sector (78.8 percent) are informal, as are a majority of those in the construction sector (54.7 percent). Services and manufacturing are equal at around 40 percent, whereas only the public sector seems to operate in almost full formality. As Figure 47 and Figure 48 illustrate, there is also a correlation between informality and young age (49 percent for 15-24 age group) and degree of education (almost 70 percent for those who have no level of education completed).

Figure 45: Share of informal labour as part of total labour



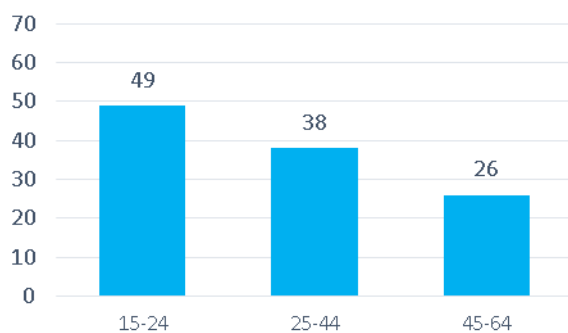
Source: World Bank "Kosovo Jobs Diagnostic" (2017)

Figure 46: Share of workers in informality (by sector)



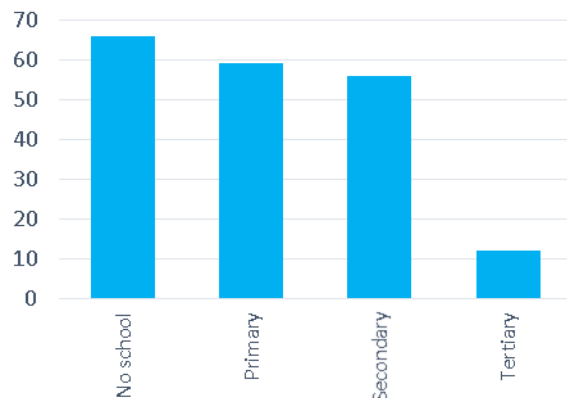
Source: World Bank "Kosovo Jobs Diagnostic" (2017)

Figure 47: Informality by age group



Source: World Bank "Kosovo Jobs Diagnostic" (2017)

Figure 48: Informality by education



Source: World Bank "Kosovo Jobs Diagnostic" (2017)

3.7. Institutional and policy framework

The legislative framework in the labour sector is rather advanced but further reforms are required, above all for the transposition of the EU Acquis.

Kosovo has already established a solid basic legal framework in the employment area through which it regulates work and employment issues, safety and health at work, labour inspectorate, trade union organizations, social dialogue, social inclusion and social protection. Kosovo's legislation regulating the employment and social policy area is partially aligned with the EU Acquis and with the main principles of EU law. Further reforms are needed to transpose EU Acquis on minimum standards in the areas of labour law, equality, health and safety at work and against discrimination. The degree of legal approximation achieved during these years, according to the assessment made in the SAA, "can generally be estimated to be at its initial level, given that EU legislation in the field of employment and social policy is very broad and voluminous." The concrete plan for further transposition of European legislation is elaborated more concretely in the National Programme for the Implementation of the SAA (NPISAA 2017).

The Ministry of Labour and Social Welfare has the lead on policy-making and service delivery related to the labour market, primarily through the Employment Agency. It shares some responsibilities with the Ministry of Education on vocational trainings. Service delivery is done at the local level.

The Ministry of Labour and Social Welfare (MLSW) has a wide structure of departments and divisions overseeing implementation of labour market legislation. The main mechanism for dialogue between Kosovo Authorities, the private sector and social partners, is the Economic and Social Council (ESC). A key role with regard to labour market issues is played particularly by the recently established Employment Agency of Kosovo (EARK) which is responsible for active labour market measures delivered through local employment offices (in each municipality), conducting labour market analyses; implementing information campaigns; providing counselling and training for the unemployed and contracting private vocational training providers; etc. The annual budget for the EARK services for 2018 is EUR 3,8 million, and is similar to budget expenditures for the same services offered earlier under the Employment Division (see **Table 9**).

Employment services and active labour market measures (ALMM) are developed and provided by the EARK through the following mechanisms: 7 Regional Employment Centres; 23 Employment Offices (EO) and 6 Sub-offices; 8 Vocational Training Centres (VTCs) and 5 Mobile Centres. Employment officers register and profile the unemployed (and other job seekers) and provide counselling and mediation in regular employment or access to ALMM such as wage subsidies, internships, etc.) while VTCs provide vocational training and retraining through modular short-term training.

In terms of active labour market measures, the MLSW also shares tasks with the Ministry of Education, Science and Technology (MEST) in the efforts to reduce unemployment through education and vocational training. While MEST focuses on general informal vocational education, MLSW provides informal vocational training for jobseekers. The difference lies in their approach, the duration of the training/education, and the purpose they serve. MEST engages in upper secondary education (ISCED 3) where education and training last up to 3 years. MLSW engages in job-oriented training (ISCED 1-3) that does not last longer than 3 months.

Table 9: MEST budget for employment services & vocational training (2017 & 2018)

Year	Institutions	Workers	Wages & salaries	Goods & services	Utilities	Subsidies & Transfers	Capital Expend.
2017							
	Labour and Employment Department	304	2.126.038	701.088	195.185	3.900.000	350.000
	Employment Division	213	1.106.195	281.088	108.385	3.600.000	
	Vocational Training	91	519	330.500	66.500	300.000	350.000
2018							
	Employment Agency	307	1.634,863	522.518	163.385	3.800.000	210.000
	Employment Services	215	1.111.379	292.400	94.700	3.600.000	100.000
	Vocational Training Services	92	523.484	230.118	68.685	200.000	110.000

Source: Kosovo budget (2017 & draft 2018 budget)

Note: About Euro 1 million of the expenditures for the category “subsidies and transfers”, per year, is for maternity leave payments.

Public Employment Services face great capacity constraints. A small number of registered jobseekers benefit from mediation in employment or vocational training, but the numbers are increasing.

The analysis of the current situation in the draft Sector Strategy on Employment and Social Welfare notes that the number of jobseekers benefiting from services is low. However, as illustrated by **Table 10** (taken from the Strategy), there has been improvement in key performance indicators of Employment Offices, more specifically in vacancies and mediations. VTCs have also shown improvement in results, such almost doubling the annual number of beneficiaries from 3,419 in 2014 to 6,736 in 2016. The number of unemployed and job-seekers undergoing on-the-job training has also increased from 281 that was in 2015 to 951 in 2016.

The Sector Strategy outlines some of the key causes for improved performance: “(i) the launch of the performance system implementation which sets the annual targets for EOs for indicators such as: number of registered jobs, number of jobseekers registered and advised by employment counsellors, number of job mediations, etc.; (ii) start profiling jobseekers on the basis of the risk of becoming long-term unemployed on the basis of characteristics such as qualification, work experience, age, job availability, etc.) and the provision of vocational and professional services in VTCs or other ALMMs in accordance with this profile; (iii) developing a new Operational Manual for the provision of employment services; and (iv) technical preparations to enable the provision of services and Labour market information (such as jobseekers' registration, job placement by employers, job information by economic sector and profession, etc.) through the website of the EARK.”

Table 10: Key performance indicators of the Department of Labour and Employment (now Employment Agency)

Indicator	2014*	2015	2016
Registered vacancies	6.566	11.506	14.137
Mediation to employment	4.667	6.174	6.754
<i>Out of which:</i>			
<i>Full time employment</i>		3.574	4.022
<i>Employment through ALMMs</i>		2.600	2.732
<i>Out of which:</i>			
<i>Public jobs</i>		1.865	819
<i>Salary subsidy</i>		498	474
<i>Internships</i>		188	434
<i>Self-employment</i>		49	54
Vocational training		4.336	7.687
<i>Out of which:</i>			
Vocational training in VTCs**	3.419	4.055	6.736
On-job training		281	951

* Some figures are missing because before 2015 the reporting was done in a more aggregated manner.

** Out of this number, in 2015 and 2016, 244 and 95 of the trainees have completed part of the VTC training programme in companies (under the supervision of VTC trainers).

Source: Sector Strategy on Employment and Social Welfare (using data from Department of Labour and Employment, Annual Reports on Labour and Employment and SIM)

There is nevertheless a limited number of unemployed people who register for employment services and are engaged in ALMPs, especially women and youth. There is lack of awareness on opportunities.

Among registered unemployed (101,773 in 2016), 44% are women. Young people (age 15-24), on the other hand, account for only about 16% of the registered unemployed, which partly reflects the participation of some of them in higher education. One of the reasons for not enrolling in the EOs, especially among young people, is the lack of information on the opportunities offered by public employment services. Provision of services on an individual basis by employment counsellors (mainly vis-à-vis the EO) also limits the number of clients (unemployed, jobseekers and employers) who can be served by EOs, especially considering that the ratio between the number of officials for employment services and the number of registered unemployed is about 1:1,100.

Due to the limited budget expenditures of the Department of Labour and Employment, the implementation of the ALMMs is mainly done with the support of donors (with the exception of VTCs with a relatively stable budget). As the analyses in Section 5 of this report shows, there is a large potential for increasing the effectiveness of the ALMMs (within the current overall spending) through better coordination and streamlining the donor support through one institution.

In 2016, only 2.8% of the unemployed participated in other ALMMs (apart from vocational VTC training, which covered 6.6% of the unemployed). **Table 11** to **Table 15** provide data on the demographic characteristics of the ALMM and vocational training beneficiaries. Apparently, males, those with secondary education and higher and young people (aged 15-24) are more likely to participate in ALMMs relative to the other categories of workers (as assessed by the share of the unemployed falling in those categories who participated in some type of ALMM).

Table 11: ALMM recipients by qualifications in 2016

Qualifications	ALMM	% of participants	Unemployed	% of all unemployed in that category
Unqualified	563	18,0%	68,395	0,8%
Primary School	902	28,9%	17,500	5,2%
Secondary School	1,378	44,1%	21,006	6,6%
University	266	8,5%	5,052	5,3%
Master	16	0,5%	226	7,1%
Dr.	0	0,0%	0	0,0%
Total	3125	100,0%	112,179	2,8%

Source: Department of Labour and Employment, Annual Reports on Labour and Employment and SIM

Table 12: ALMM recipients by age group in 2016

Age Group	ALMM	% of participants	Unemployed	% of all unemployed in that category
15 - 24	1172	37,5%	10,603	11,1%
25 - 39	1129	36,1%	53,983	2,1%
40 - 54	699	22,4%	37,685	1,9%
55+	125	4,0%	9,908	1,3%
Total	3125	100,0%	112,179	2,8%

Source: Department of Labour and Employment, Annual Reports on Labour and Employment and SIM

Table 13: ALMM recipients by gender in 2016

Gender	ALMM	% of participants	Unemployed	% of all unemployed in that category
Female	784	25,1%	48,960	1,6%
Male	2341	74,9%	63,219	3,7%
Total	3125	100,0%	112,179	2,8%

Source: Department of Labour and Employment, Annual Reports on Labour and Employment and SIM

Regarding the vocational training, young people are more likely to be part of some VET training (**Table 14**), whereas there are no gender differences (**Table 15**).

Table 14: Vocational training by age group

Age Group	Entries to training	%	Unemployed	TR	Certified	CR
15 - 24	1,807	44,6%	10,603	17,0%	1497	82,8%
25 - 39	1,723	42,5%	53,983	3,2%	1365	79,2%
40 - 54	492	12,1%	37,685	1,3%	411	83,5%
55+	33	0,8%	9,908	0,3%	25	75,8%
Total	4055	100,0%	112179	3,6%	3298	81,3%

Source: Department of Labour and Employment, Annual Reports on Labour and Employment and SIM

Table 15: Vocational training by gender

Gender	Entries to training	%	Unemployed	TR	Certified	CR
Female	1786	44,0%	48,960	3,6%	1407	78,8%
Male	2269	56,0%	63,219	3,6%	1891	83,3%
Total	4055	100%	112179	3,6%	3298	81,3%

Source: Department of Labour and Employment, Annual Reports on Labour and Employment and SIM

Work of VTCs is hampered by the lack of systematic assessments of labour market demands, insufficient cooperation with businesses and social partners and the lack of mechanisms to ensure quality of services.

The Sector Strategy currently in the works by the Kosovo Authorities notes that a key challenge for the effectiveness of the VTCs is the lack of regular labour market demand assessment system in Kosovo. The strategy notes that the “in the absence of data, there is no accurate evidence whether in the current content, the VET training provided is required in the labour market.” Moreover, there is a lack of data on the professions that the Labour market requires and which are not provided by the VTCs. According to the analysis in the strategy, “cooperation with businesses and social partners (such as chambers of commerce and associations of various sectors) and other representatives of chambers ...for provision of vocational training and retraining to the company remains limited.” The strategy also notes that “MLSW does not operate a system for regular evaluation of the quality of training provided by VTCs.”

4. KOSOVO EDUCATION SNAPSHOT

4.1. Introduction

Kosovo has the youngest population in Europe, with 28% younger than 15. With such high percentage of student population, education is the most important service sector in Kosovo. However, although education reforms and institutions were supported by various international organizations consistently after the conflict, the main concerns lie not on inclusion but quality of education and employment generation. This begs serious study of the education sector, aimed at finding gaps and advantages and improving it.

This report will present a snapshot of Kosovo Education with special focus on vocational and higher education. It will describe the organization and management of education in Kosovo and analyse main educational policies and reforms in Kosovo. The report is organized in five sections. The first outlines Kosovo's education system and its organization and management. It will cover specifically the legislative framework, the institutional and administrative set up in central and local level, financing and an analysis of institutional roles and capacities. The second section focuses on student issues by presenting enrolment, selection, progress, performance, career orientation in vocational and higher education. The third section will outline the role and capacities of education providers on the basis of performance indicators such as: school infrastructure, institutional governance characteristics, curriculum, teacher qualifications and quality mechanisms. The fourth section will provide a snapshot of programmes offered for each level and will outline differences in outcomes for each level. The fifth section will provide conclusions and policy recommendations.

4.2. Organization and Management of the Kosovo Education System

Kosovo Education was influenced by three main education systems: 1) the public Yugoslav Education System (1945-1989), the Kosovo Parallel Education System (1990-1999), and the post conflict Kosovo Education System (2000-current). Currently, Kosovo Education System is not unique throughout the territory of Kosovo, divided between two main authorities organizing and managing the system:

1) Education managed exclusively by the Kosovo central authorities and local institutions where the primary responsibility for education lies with municipalities for managing and delivering primary and secondary education using the Kosovo Curriculum, whereas higher education falls under the jurisdiction of the Ministry of Education Science and Technology (The Assembly of Kosovo, 2008). Accreditation is managed by the Kosovo Qualification Authority for formal vocational education and training qualifications of level 3, 4 and 5 and by Kosovo Accreditation Agency (KAA) for higher education qualifications for level 5, 6, 7 and 8.

2) Education managed by joint jurisdiction of Kosovo Authorities and Serbian Government where the primary responsibility for education lies with municipalities for managing and delivering primary and secondary education using the Republic of Serbia Curriculum and with extended competences granted to the North Mitrovicë/Mitrovica Municipality for managing higher education (The Assembly of Kosovo, 2008). KAA has no jurisdiction over accreditation for the HEI in Northern Kosovo.

4.2.1. Education Legal framework

Education in Kosovo is largely public at the pre-university level where private providers make up only 2.4% of the total student population (MEST and ASK , 2017). On the other side, private providers in higher education have increased extensively over the past 15 years, making up 50% of the total student population (MEST and ASK , 2017).

The laws, regulations and administrative instructions create a complex system that regulates access and quality of education. Ministry of Education, Science and Technology (MEST) approves regulations and administrative instructions regularly to detail procedures and processes outlined in the laws. Although the MEST plays central role in the management of education, from 2008 it has shifted responsibilities to the local institutions thus mainly maintaining direct control in: 1) developing policies and legislation; 2) promoting inclusion, human rights and non-discrimination; 3) manage certification of teachers; 3) facilitate improvement of quality 4) manage inspection system. One of the key responsibilities of MEST is preparation of curriculum framework, professional standards for VET where MEST coordinates the curriculum expert groups and approves text books (Assembly of Kosovo, 2011).

The education market was liberalized with Law on Pre–University Education in 2002 and Law on Higher Education in 2003. Initially the process was managed by MEST through licensing procedure. From 2009 the Kosovo Accreditation Agency (KAA) is responsible for accreditation of HEI and their awards. From 2012 National Qualification Authority (NQA) is responsible for the approval of qualifications and accreditation of institutions of vocational education and training (IVET).

The Law on Pre –University Education (Law No. 04/L-032) (Assembly of Kosovo, 2011) promulgated in August 2011 is a comprehensive law that establishes rules on access, ensures compulsory schooling and outlines rules for management, funding and monitoring dividing responsibilities among MEST, Municipal Education Departments (MED), educational institutions and other stakeholders.

The Municipal Institutions through MED have primary responsibility for governance and delivery of school education including registration of students, employment of teachers and other educational staff, selection of school directors, supervision of schools, monitoring student progress and determining participation fees for nurseries. MEST and MED share some responsibilities over construction of schools and managing other sources of funding (The Assembly of Kosovo, 2008).

The Law on Vocational Education and Training (04/L-138) and the Law on Adults Education and Training (04/L-143) regulate Institutions of vocational education and training that provide qualifications and modules of levels 3, 4 and 5 according to the Law on National Qualifications nr 03/L-060 (The Assembly of Kosovo, 2008). The Agency for Vocational Education and Training and for Adults' (AVETA) established in 2013, is responsible for the administration and leadership of Institutions of Vocational Education Training and for Adults' (IVETA) regarding the financial, human sources, construction buildings and infrastructure of all public institutions of VET and centres of competence under its regulatory administration with provision to gradually transfer responsibilities pursuant to their capacities (The Assembly of Kosovo, 2013).

The Law on Higher Education (04-L-037) (The Assembly of Kosovo, 2011) provisions the creation of autonomous higher education institutions (HEIs) in which members participate actively in the governance, management and quality assurance processes. The law addresses licensing and accreditation procedures for public and private education providers and determines the role of the KAA and the National Qualification Authority (NQA). It also regulates the governance and

denomination of the HEI-s and the award of academic titles. The law aimed profound changes in the education structure by widening educational offerings and democratizing educational institutions, in which ownership, decision-making and accountability are shared among academic and management interests and responsibilities. The Law regulates KAA as an independent institution governed by a board designated as National Quality Council (NQC) “consisting of not less than five and not more than nine persons appointed by the Ministry for a fixed term from among persons of both genders active in academic work in higher education and/or the professions within and outside of Kosovo, such that there are at least three persons (‘international experts’) not employed by any higher education provider in Kosovo”. The board members are ratified by the Assembly. The law stipulates that institutions and programmes are reviewed based on internationally recognized standards by international evaluation teams subcontracted by KAA. The Draft Higher Education Law which was withdrawn from the parliament in March 2017, needs considerable improvement to ensure equal standards for all HEI, clear designation criteria for institutions, clear academic award title procedures and clear criteria for appointment of members at university boards and at NQC to ensure progress in higher education.

The Kosovo Education Strategic Plan 2017-2021 in the most recent document of the MEST. KESP 2017-2021 has identified the following objectives for VETAE and HE:

Strategic objective / SO 6: Vocational Education and Training and Adult Education

Harmonising vocational education and training with labour market requirements in Kosovo and abroad, and creating an open system for adult education.

In terms of VET, the focus will be on improving the relevance of school programmes to labour market needs, the development of a VET specific core curriculum, aligned to the KCF, the systematic provision of high quality work experience and professional practice, and, specific to the Kosovo context, ensuring the sustainability of the Centres of Competence and their further development.

Strategic objective / SO 7: Higher Education

Upgrading the quality and competitiveness of higher education through the promotion of excellence in teaching, scientific research, artistic creation, innovation, and internationalisation.

The main priority in this area is the improvement of quality in higher education institutions. This has many facets including adapting study programmes to labour market requirements, the promotion of scientific research, and the facilitating of artistic work and innovation in higher education institutions. The quality of teaching and the need to increase academic mobility of academic staff and students, as well as participation in international programmes of higher education and scientific research, will also receive attention.

4.2.2. The School System

In Kosovo there are eight levels of education categorized as shown in Table 16.

Table 16. Stages of education and employment, level of education and grades and qualifications.

Stages of Education/ Employment	NQF Kosovo (http://www.akk-ks.net/)	
	Level	
Pre-primary education	0	Pre-school
Basic education	1	Primary School (Grades 1-5) Music School (Grades 1-4) Elementary School Certificate
	2	Lower Secondary (grades 6-9) Music grades 5 -8 Lower Secondary Certificate
Initial entry into employment or further education Progression to skilled employment. Continuation of secondary education. Qualified/Skilled worker Entry to higher education Completion of secondary education Specialized education and training	3	Upper Secondary Vocational Schools (grades 10-12); Music/Arts Schools (Grades 1 -10) Vocational School Certificate
	4	Upper Secondary Education Gymnasium (grades 10-12); Matura Exam VET Matura
Entry to professional graduate employment	5	Professional Bachelor Professional Certificate Post-Secondary Diploma
Higher education and Advanced skills training	6	Higher Education Institutions (Colleges and Universities) Bachelor Degree Bachelor of the Arts (BA) hon, Bachelor of Science (BSc) Former Teaching Degrees (Professor)
Professional or postgraduate education, research or employment	7	Public and Private Higher Education Institutions (Colleges and Universities) Master Degrees Former Magistratura (Mag) Master of Arts (MA); Master of Science (MSc) Master of Business Administration (MBA) Former Engineering Degree (ENG) now Integrated Masters
	8	Public and Private Higher Education Institutions (Colleges and Universities) Former Doctorate, PhD

Level 0 (Pre-Primary Education)

In Kosovo children enrol in pre-school at the age of 5 with a short term programme of 2 hours in the regular primary schools. Pre-school is not compulsory and children are sent to public and private nurseries from age one. Although pre-primary grade for children aged over five is foreseen to be

compulsory (Assembly of Kosovo, 2011) , it is still not fully incorporated into the obligatory system. Pre-primary grade education of children over the age of five (5) is part of KCF Key Stage 1 in ISCED Level 0, incorporated into compulsory education according to Article 9 of this Law, is implemented as foreseen in the transitional provisions. Participation rates at this level is 15.7 % for children 0-5 years, 2.8 for children of 0-4 years and 79.6 % for children of 5 years, representing the lowest inclusion rate in the education system (Ministry of Education, Science and Technology, 2016). Low inclusion rate results from lack of nurseries across Kosovo, admission policies prioritizing working parents and inability of non- working parents to pay admission fees. Fees for this level fees range from 50 euros a month for public institutions and 80-180 euros a month for private institutions. Limited provision for child care is considered as main female labour barrier because mothers carry the main child care obligations (Riinvest Institute, 2017).

Level 1 and 2 (Obligatory Education)

In Kosovo, children must complete 9 years of compulsory education (level 1 and 2). The majority of students enrol at the primary school at the age of 6 and attend five years of basic education (grade 1-5) with possibility to attend parallel music education in music school (grade 1-4) if selected through an audition. Students are registered in schools based on residence area. While participation in this level is 96 %, the main problems are encountered in recording school dropout especially among marginalized groups and in managing competition for “good schools” and “best teachers” often expressed with overload in specific schools or classes and residence change.

In 2001 the 9th grade was introduced thus separating obligatory education in primary education (grade 1-5 /age 6-10) and lower secondary education (grade 6-9/ age 11-14). The main change in this level of education is the introduction of English Language in the first grade, teacher qualifications requirements and licensing procedures and introduction of the external examination after the 9th grade. While participation rate for lower secondary is 98 %, the main problem identified was the low attendance rate in the 9th grade and inadequate implementation of the Kosovo Curriculum in grades 6-9. While extensive training has been provided for primary education teachers, subject teachers and especially science teachers have been left behind thus creating a skill mismatch for this level of education. The 2015 Programme for International Student Assessment (PISA) report highlighted that Kosovo’s 15 year old students scored for science literacy 378 points compared to an average of 493 points in OECD countries (rank 67/69), 362 points in mathematics compared to an average of 490 points in OECD countries (67/69) and an for the average performance in reading 347 points, compared to an average of 493 points in OECD countries (68/69) (OECD, 2017).

Level 3-4 (Upper Secondary education)

After finishing compulsory education students can choose between vocational schools or gymnasiums. While participation rate for this level for ages 15-18 is 97% (Ministry of Education, Science and Technology, 2016), the selection of students is done based on the formula containing Semi-Matura External Exam scores and Lower secondary education scores for specific courses categorized as priority for each type of school.

Over the last three years much attention has been given to vocational education with increased concentration of funding by donors in the sector. However, the management of the vocational schools

and the programmes are still considered to lack hands-on experience of the workplace. While curriculum is designed from expert groups assigned from the ministry, managerial and teaching staff capacities have not been developed to implement a modern curriculum and create connections with the workplace.

Level 5 (Post-Secondary Education)

Level 5 qualifications are new qualifications in the education system. They are proposed by the VET sector to promote faster employability. Few centres of competence and Professional colleges have designed programmes at this level. The dominance of bachelor programmes for professional careers that can be accommodated at lower levels risks the role and use of these qualifications. Most recently there is a flux of ICT sector programmes at this level.

Level 6-8-Higher Education

Access to Higher Education in Kosovo has increased over the last 15 years reaching a 62,7% participation rate for students aged between 20-24 (Rexhaj and Pupovci, 2015). Currently, there are 32 providers, 30 accredited by the KAA (Kosovo Accreditation Agency, 2017) and one accredited by Serbian Commission for Accreditation and Quality Assurance (Commission for Accreditation and Quality Assurance, 2017). HEIs organize studies according to the Bologna three-cycle structure and apply ECTS credits. Undergraduate degrees require three years of study (180 ECTS) with the exception of teaching degrees that require 4 years (240 ECTS), and medical degree that requires 5 years (300 ECTS). Master degrees last 1 to 2 years (60-120 ECTS) and doctoral degree requires 3 years of study. Matura exam is mandatory for enrolment in bachelor programmes (level 6) and entrance exams are applied by public institutions. Admission to master level in public institutions is based on average grade and admission to doctoral programmes besides average grade requires English Proficiency at B2 CEF level. Doctoral programmes are offered only by the University of Prishtina that usually admits its teaching staff.

4.2.3. Education Finance

Although investment in education increased over time, it still represents around 4.4% of GDP, which according to the World Bank, is less than the average in Europe and Central Asia at 4.6% and less than upper middle income country average at 5% (World Bank, 2015; MEST, 2016) . While there is little publicly available information on how education funds are spent, KESP 2016 emphasizes the concentration of spending in salaries though specific education grants to municipalities and budget to public HEIs decreasing substantially (budgets for operation, innovation, staff development and research). The budget for education and science for 2017 is presented in Table 17. The budget for HEI institutions is listed under the institution name and with the exception of the University of Prishtina which has a separate budget entry, other public universities are listed under the budget line Higher Education in the MEST budget. The budget for vocational schools is listed under the AVATAE budget. The budget does not include the pre-university education budget, which is managed by the municipalities (The Assembly of Kosovo, 2016).

Table 17: The budget for education and science 2017 excluding the budget grant for pre-university education managed by Municipalities

	Employees for 2017	Salaries and wages	Goods and Services	Utilities	Subventions and Transfers	Capital Investments	Total
U. Prishtinë/Priština	2,081	20,804,494	2,752,645	1,175,000	1,299,000	2,516,401	28,547,540
U. Prizren	139	1,630,346	600,000	63,000	10,000	200,000	2,503,346
U. Pejë/Peć	155	1,614,408	380,607	60,408	10,000	84,000	2,149,423
U. Gjilan/Gnjilane	104	930,214	329,339	40,000	10,000	250,000	1,559,553
U. Gjakovë/Djakovica	101	949,633	316,339	40,000	10,000	340,000	1,655,972
U. Mitrovicë/a	196	1,942,359	337,239	50,000	10,000	520,000	2,859,598
U. Ferizaj/Uroševac	25	750,493	108,870	30,000	15,000	146,000	1,050,363
Inst. Albanology	51	557,564	146,954	42,000			746,518
Inst. History	31	344,690	77,985	823			423,498
Inst. Leposaviq/ć	14	56,522	1,550				58,072
Student Centre	249	1,257,496	2,514,151	699,058	2,000	600,000	5,072,705
Bilateral Agreements						2,298,478	2,298,478
KAA	9	71,479	427,510	1,500		50,000	550,489
HE Capital Investment						150,000	150,000
NQA	7	53,836	187,949	2,000			243,785
AVETA	495	2,725,349	316,516	120,000			3,161,865
Especial ED	208	1,173,372	350,701	42,900			1,566,973
Teacher Training			697,091	8,200			705,291
Curriculum Development			200,000				200,000
Inst. Pedagogy	21	144,334	75,502	1,523			221,359
Basic Education Programme						77,003	77,003
Capital Investment PUEP						7,693,778	7,693,778
Central Administration	188	1,439,752	2,384,995	58,947	1,289,448	3,269,709	8,442,851
Minister's Cabinet	9	111,204	127,574	2,800			241,578
Education Inspectorate	63	436,017	90,600	13,300			539,917
Academy of Science and Arts	55	714,908	324,943	5,000		50,000	1,094,851

As Table 17 reveals, the Kosovo Authorities support only 6 public universities which use a fee system approved by the MEST. Although public universities have the same status, only University of Prishtina has a separate budget line and increased autonomy to use the allocated funds. Other public universities get allocation through the ministry budget line and go through several approvals during

the budget spending process. Fees are regulated by MEST Administrative Instruction 17/2014 (Ministry of Education, Science and Technology, 2014) to offer higher education at a low cost admission fees and additional thesis defence fees for master and PhD. Private Colleges apply a median fee of 700 Euros for bachelor studies and a median fee of 1000 for master level. Exceptional fees of more than 3000 Euros are applied by international programmes offered through franchise or service agreements and validated by KAA.

Table 18: Student Fees in Public and Private Institutions

Institutions	Fees – Public € Yearly	Fees- Private € Yearly
Nurseries	600	600-1500
Primary School	0	1500-3000
Upper Secondary (12 Grades)	0	1500-3000
Higher Education Fees	BA 50 (full time) MA 300 + 100 thesis defence fee PhD 1000 + 300 Thesis defence	BA 700-1500 ⁷ MA 1000-1800 ⁸ English Language Provision: BA 3500-6500 MA 5500-10000

Box 1: Student Financial Aid

Public universities provide a limited number of scholarships to students based on merit and based on beneficiary schemes for some categories. The high performing students receive a scholarship on the second and third year of studies. Public HEIs admit fee-paying students within the category part-time or correspondence students. Professional schools apply fees for adult learners.

Private universities provide limited number of scholarships to students. Private providers apply 12 instalment payment and students have very little access to student finance or scholarships. The fees for bachelor studies at private universities are presented in different formats through some discount and scholarship schemes.

The fees for bachelor programmes are similar to public fees for nurseries. Due to the large number of HEI providers, the price for a bachelor programme offered by a Private HEI is lower than private secondary school. The policy to increase access in higher education has enabled high entrance rates in the higher education system including those from disadvantaged backgrounds. However, taking into consideration the high unemployment rate and impact on the quality of education, the financing of lower levels of education may contribute to better student preparation for employment (The World Bank Group, 2018).

⁷ Some universities apply 200 Euro for BA thesis

⁸ Some Universities apply 500-600 MA thesis defence fee

4.3. Student Profile

In 2016, there were 494,005 students engaged in formal education for all ages. Table 19 shows the number of students in all levels of education in 2016.

Table 19: Number of students in the public and private institutions. Source: ASK 2016

Level	Education	Public	Private	Total
0	Pre-school (0-5)	3,809	2,083	5,892
0	Pre-school(5-6)	22,157	937	23,094
1	Primary School	132,438	1,624	134,062
2	Lower Secondary	115,386	1,483	116,869
3	Upper Secondary	86,447	2,945	89,392
(0-3)	Special Education	271	-	271
3, 4, 5	Adult Education	1,794	-	1,794
Total Pre University Level		362,302	9,072	371,374
(5-6)	Bachelor	65,640	41,988	107,628
7	Master	9,607	5,293	14,900
8	Doctoral	103		103
Total University Level⁹		75,350	47,281	122,631
Total All levels		437,652	56,353	494,005

Source: Ministry of Education Science and Technology and Kosovo Agency for Statistics (2017), SMIAL (2017)

The System for Managing Education Information (SMIA) collects data from pre-university level institutions.¹⁰ SMIA data show that 51% of students enrolled in upper secondary schools are registered in vocational schools. In 2017, pass rate in the first round of the semi Matura Exam was 83.5%. Usually this gap is corrected in the second term where half of the remaining students passed the Semi- Matura exam.

⁹ The data for University level was combined with SMIAL

¹⁰ The SMIAL data is a recent system put in place in 2016 supported by UNDP and EYE Programme. The system included enrolled students in 2016 and will be able to generate graduation data in the future.

Table 20: Matura Exam Results from 2017

Profiles	June		August	
	Achievement	Pass	Achievement	Pass
General	67.5	95.7	40.6	45.1
Natural Sciences	73.3	98.5	48.1	75.5
Mathematics	79.3	98.6	44.0	50.0
Social Sciences	57.7	90.2	44.7	65.8
Languages	63.5	94.2	46.0	80.9
Professional I	56.4	78.9	39.5	46.1
Professional II	44.5	58.9	39.6	44.1
Professional III	48.5	76.0	40.2	48.7
Art	51.0	80.9	43.9	50.0
Music	68.4	99.8	42.0	50.0
Total		83.5		50.9

The selection process through Semi-Matura exam categorizes students in high performing students enrolled in gymnasiums and low performing students enrolled in vocational schools. Although the Semi-Matura exam administration is criticized for serious deficiencies (Ministry of Education, Science and Technology, 2016) it is an important milestone for student career choices. In this respect vocational schools are characterized with an image of poor quality, not only in terms of student intake, but also in terms of teacher qualification, teacher development and institutional culture. Table 21 reveals that for the year 2016 most students (81.12 %) are enrolled in bachelor programmes with similar distribution in public and private institutions for level 6 and 7 with no enrolment in level 8 in private HEI.

Table 21: New Enrolment according to NQF Levels in 2016

KKK/NQF	Public	Private	Total	%
6	14408	12914	27321	81.12
7	3782	2478	6260	18.59
8	100	0	100	0.30
			33,681.00	

Student Selection in Public Institutions is done through a public competition which is open only one week. Students apply for the study programme and only University of Prishtina (UP) applies additional entry exams. Application is done in two terms and in most of the cases with the exception of students who choose first choice a private education provider and enrol through early application, most of the student apply at the private colleges only after having tried to enter the public university.

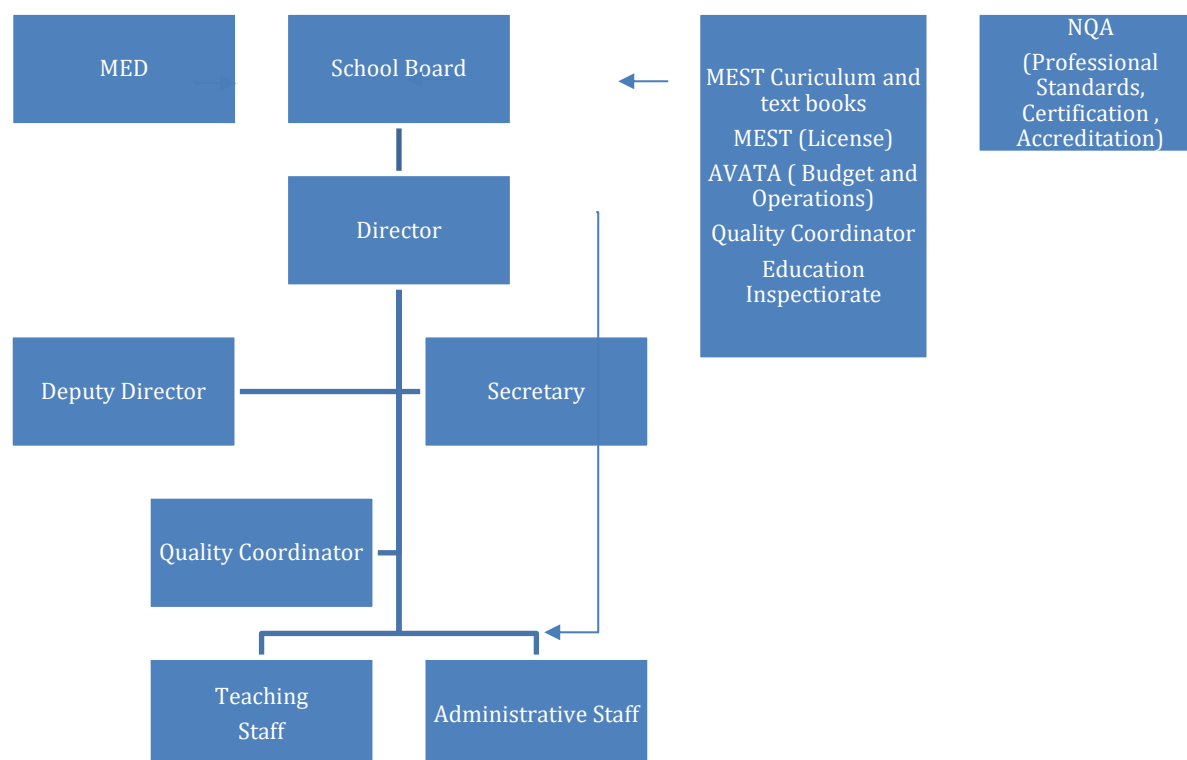
4.4. Institutional Performance

Despite the adoption of modern legislation, in many reports, the shortcomings of the education system are blamed for high youth unemployment rates (The World Bank and Statistical Office of Kosovo, 2007, The World Bank, 2007, The World Bank, 2008, UNDP, 2006). Unemployment and large numbers of secondary school leavers are mitigated through a higher education expansion strategy. However, we argue that legislation and access alone do not ensure conditions for a meaningful education experience and employment. Deficiencies in the implementation at institutional level and overemphasis on political management resulted in unsatisfactory institutional modernization and increased political interference in the management of institutions.

4.4.1. Institutional governance characteristics

The Management of the Vocational schools consists of a typical school management team including the director, deputy director and general secretary. With the exception of some centres of competence that have established cooperation with business and generate limited income, the management covers all administrative duties regarding student registration and school administration. The support staff mainly covers secretarial and maintenance duties.

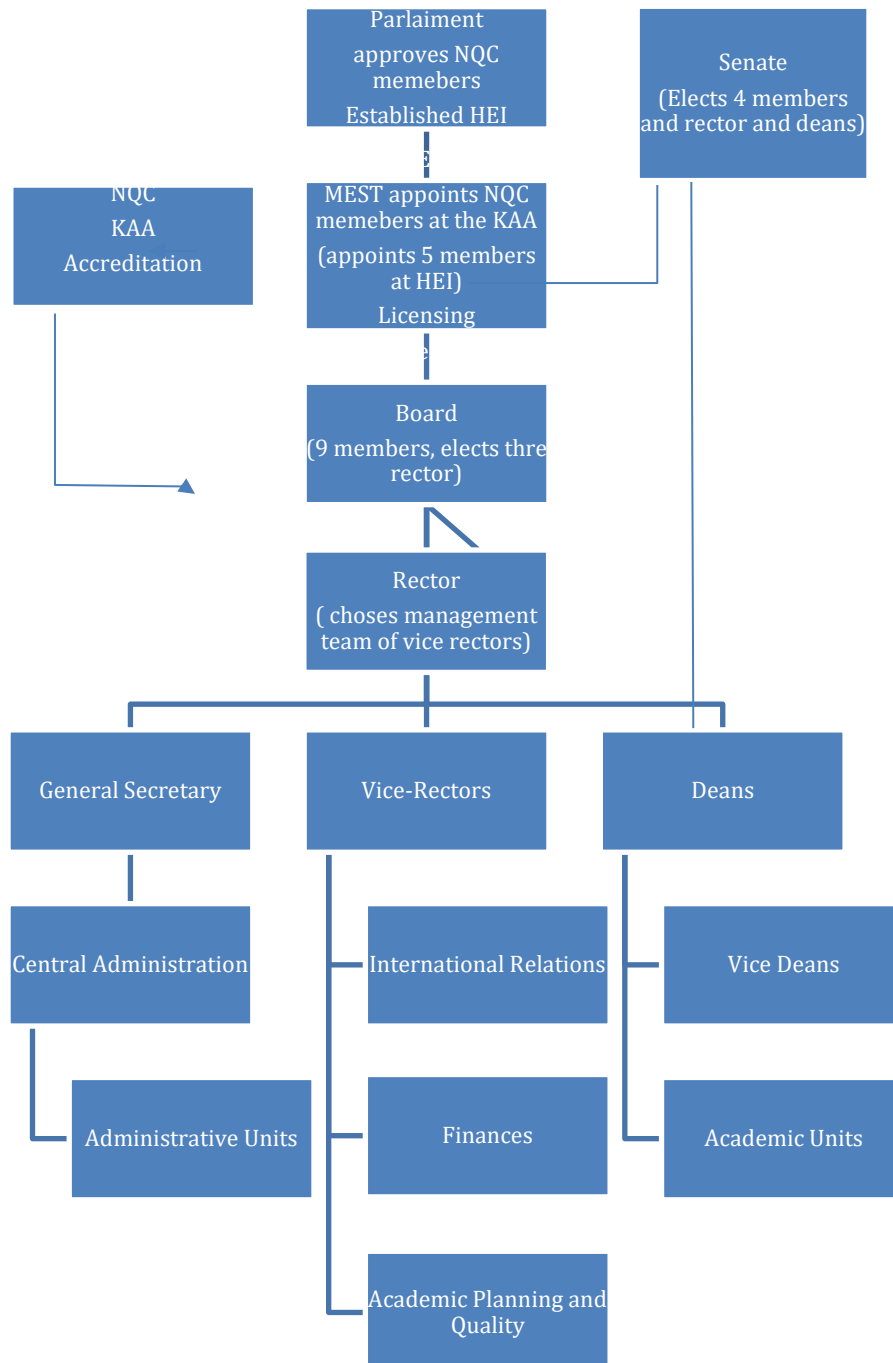
Figure 49: Organization and Management of Vocational Education Institutions



With the establishment of AVATA, VETI are still not delegated the authority to manage the institutions independently and lack the necessary staff development to implement quality mechanisms. Schools do not adequately measure and report dropout and employment. The effectiveness of VETI is still not assured although curricula are approved by MEST.

Higher Education Institutions, on the other hand, have a more complex organizational structure, mostly drawing from the model of the University of Prishtina, with few differences in the private sector. Figure 50 shows a typical governance structure at public HEI.

Figure 50: Governance Structure at Public HEI



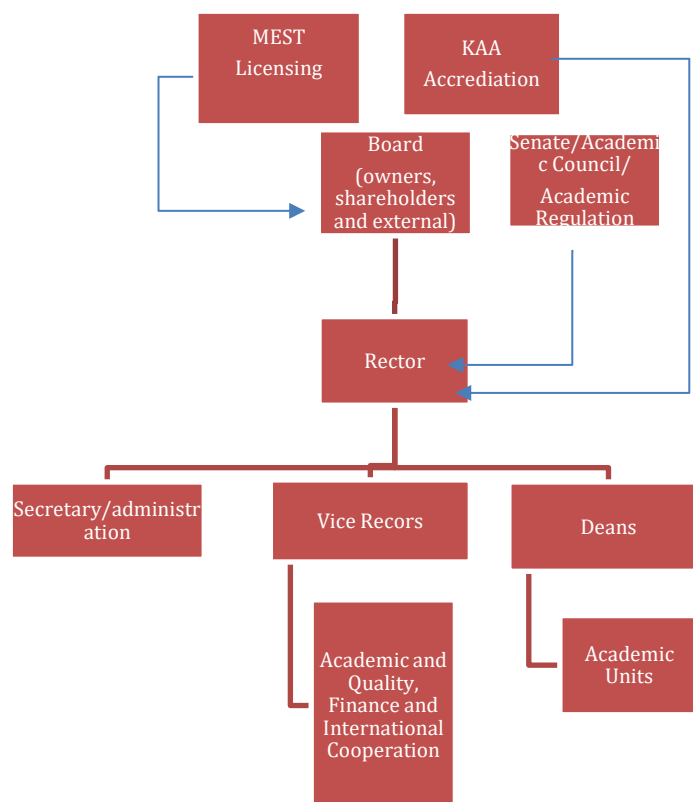
HEI are established by parliament with the proposal of MEST. MEST appoints 5 members in the board of the Public Universities and approves statutes of all HEI and issues licenses after the accreditation

decision by KAA. MEST appoints KAA members and facilitates discussions on HE Law and other administrative regulations.

The system allows for political interference in the establishment and management of institutions. This interference is evident in the denomination of public universities which is non-compliant with accreditation regulation (MEST, 2016; MEST, 2017). There is also interference in the appointment of rectors through voting in the board. Deans are also elected by the senate and rectors choose their management team. This appointment of academic managers is dominated by a political process which the Council of Europe report (Smith & Hamilton, 2017) considered as not providing a progressive development. Evidence suggests that public institution development and autonomy is risked and constrained by political appointments in boards, management and teaching positions (UNDP, 2015). The selection process has often resulted in institutional intervention and public reactions for hiring and tenure procedures. In this regard, the legislation should include some other professional criteria for appointment of board members to prevent outright political appointment and to ensure professionalism. HEIs provide little or no financial data to the public and there are no clear accountability procedures in place. Thus, the political climate and culture has undermined autonomy and academic freedom and has compromised the reform intentions for students' individual development and wider social changes.

Private institutions on the other hand, in most of the cases, do not meet the legal requirement provisioned in the article 14.5.1 that ensures separation of ownership from the institution's academic leadership (The Assembly of Kosovo, 2011).

Figure 51: Governance Structure at Private HEIs



The law specifies governance models only for public institutions whereas provisions that MEST approves statutes of all HEI are not implemented in practice, allowing for education inspectors and MEST to design policies and judge implementation of standards based on the UP model of governance, statutes and practices.

4.4.2. Curriculum

The curriculum design for VET is largely managed by MEST maintaining high dependency from decision making by the curriculum experts and the MEST. In terms of the structure, professional practice (PP) is the main component in VET programmes. PP has specific hour allocation for in-class practice/exercise and external placement. For grade 10 the regulation stipulates one day professional practice per week, for 11 grade, one and a half days professional practice per week and for the 12 grade two days professional practice per week. However, placement is still not adequately organized as foreseen in the Handbook of professional practice published by MEST. In some cases the practice placement is not adequate to support learning and skill attainment. Similarly there are no standardized evaluation forms, and there are different practices in organizing and evaluating the external practice.

In Higher Education, academic departments design programmes. However, in most cases it is experienced as a hurried exercise related to accreditation process. The guideline for the accreditation of study programmes contents that the programme design is judged on four main principles. 1) the “rational of the programme for the labour market” based on market research; 2) evidence of international comparability; 3) relevance for the target group; 4) linkage with the mission of the institution. In addition, the experts evaluate the aim of the programme, learning outcomes and relation between theoretical and practical provision as well as details of the whole programme and module/subject description.

Such design exercise requires a constant update with reliable research on labour market and sector analysis. In addition, it requires a serious engagement of all teaching staff in the design of the curriculum and strong cooperation with the businesses and other stakeholders. Although, AKA has accredited more than 300 programmes, such detailed programme development exercise is not evident throughout the higher education sector due to huge teaching workload of staff obtaining multiple employment in HEIs. The main deficiency is in defining learning outcomes for module and programme level in line with Dublin Descriptors. The KAA reports and other employer surveys suggest that generic skills such as writing, communication, organization, team work, problem solving are not developed and that master level graduates lack research, writing and critical thinking skills.

While practice placement (UNDP, 2017) and specific scholarships such as IPKO Foundation provide good opportunities for students to get working experience, further training and networking, business sector does not have enough capacity to host the big number of students in HEIs.

Table 22: Main characteristics of curriculum

	Bachelor Programme	Master Programme	PhD Programme
Year 1	8-10 Modules	6-8 Modules	1-2 Modules
Year 2	8-10 Modules	3-5 Modules and Thesis	5 Module /Thesis

Year 3	8-10 Modules		Thesis
	Limited Mobility Programmes	Limited Mobility Programmes	Limited Mobility Programmes
	Obligatory Practice Solicited Placement	Lack of Supervision Guidelines and Monitoring	Lack of Supervision Guidelines and Monitoring

4.4.3. Teacher qualifications

VET teachers are categorized in several types of teachers: general subject teachers, professional subject teachers, internal practice instructors, external practice instructors and integrated professional and theoretical subjects. The Administrative Instruction 05/2015 requires that teachers have a bachelor or master degree to teach general and professional subjects and additionally professional experience in the industry for practice instructors. These should also comply with MEST professional teaching standards and licensing procedures (MEST, 2010). Faculty of Education in the University of Prishtina is the only institution authorized and accredited to award teaching qualification for pre-university level, thus new teaching positions prioritize four year teaching qualification offered by the Faculty of Education. Continuing professional education (CPD) for holders of former teaching qualification from pedagogical schools or four-year bachelors are obliged to undertake in-service CPD (MEST, 2014). CPD is offered by MEST, NQA and other organization accredited by MEST to offer CPD. However the CPD according to (European Training Foundation, 2016) has mainly concentrated in general pedagogical training and not covering specific needs required from different teachers, schools or sectors. This is especially the case for VET teachers who use outdated teaching methodology within a fast-changing industry and technology. Therefore, CPD programme for VETI is needed to change the current quality of programme delivery.

In Higher Education, teachers are not required to undergo any licensing procedures as PhD qualification is required for the position of lecturer and professor and MA/MSc qualification is required for assistant position. For accreditation of programmes, KAA requires one PhD for 60 ECTS thus requesting 3 PhD for bachelor programmes, 2 PhD for Master programmes and 3 PhD for Doctoral Programmes (The Ministry of Education, Science and Technology, 2017). Higher education institutions provide limited CPD for teaching staff and HEI teaching staff do not undergo any formal pedagogical training.

4.4.4. Staffing and Employment

Staffing and employment are clearly defined for VETI but not for HEI. Administrative Instruction 17/2015 (The Ministry of Education, Science and Technology, 2015), stipulates workload for each teacher category and payment of hours based on workload such as full-time staff and part time staff. A workload of 40 hours a week consisting teaching, consultations and placement monitoring makes a full-time contract and failure to accommodate the workload will result with payment by hours. VETI staff are in the payroll database enabling MEST to control teacher workload.

While the employment is regulated through the Labour Law (The Assembly of Kosovo, 2010), staffing in Higher Education is done in two forms commonly referred as contract for full time staff and part time staff. Part time staff is also referred in contracting documents as Contract for engagement. The

terminology full time and part time staff is also used in the higher education law and for accreditation of higher education institutions and programmes where full time staff is considered one that has a workload of 40 hours a week (amounting to approximately 6-8 hours per week or teaching two subjects per group for a semester). Full time staff are entitled to 12 month salary and other rights for paid leave. Part time staff is considered by KAA any teaching staff enlisted who declared HEI as secondary employee. However, the same regulation allows for additional 20 hours' workload in another institution.

In contrast to VETI for which MEST has direct employment data and supervision, MEST did not exercise any supervision on staffing budget and distribution in HEIs. In public institutions where there are many groups of students, regular staff is paid for a full-time contract and over time for additional hours thus allowing teaching staff to take a fulltime workload of 40 hours per week in one or more departments. Given the number of HEIs, the employment in this sector has increased and has provided opportunities for young academics. However, multiple employment and lack of supervision for staff workloads has influenced directly the quality of hiring and the opening of new positions. The situation was so alarming that the KAA has developed a procedure for teaching and employment declaration and confirmation requesting individual teachers, institutions to declare teaching workloads and confirm employment with tax administration. In this way, implementation of law regarding staffing has undermined sustainability in staffing in HEIs, quality of provision and the CPD.

4.4.5. Quality Assurance

At the pre-university level, quality assurance mechanisms are not yet properly established and the monitoring process is superficial and mainly done through inspection. The new Administrative Instruction 4/2017 (The Ministry of Education, Science and Technology, 2017) determines policies and procedures for evaluating school performance through a system of internal and external evaluation in the following quality fields: management and governance, culture and school environment, teaching and learning, teacher professional development and student performance. The performance criteria use an evaluation scale of four levels: excellence, good performance, acceptable performance and unacceptable performance using performance indicators. The main actors in the process are MEST, Education Inspectorate, MED and Institutions. MEST approves policies and procedures, approves external evaluation teams proposed by the Inspectorate, and hires institutions to support staff and institutional capacity for quality assurance process including training for self-evaluation teams.

The VET curricula and manuals are designed by expert teams at the Ministry with support of local and international experts. These are received by the school staff, and occasionally staff members are included in the teams to contribute to the development of manuals. The professional standards are approved by the NQA and programmes and certifications are reviewed, accredited and monitored by expert teams approved by NQA. Only few centres of competence have established a Quality Assurance Process managed by the vice director for quality and international cooperation. Other VET schools have assigned quality coordinators recently who will be in charge for organizing the internal quality mechanisms. According to the National Qualification Authority (2011.p. 5), evaluation approaches should use a "wider range of methods including lesson observations, discussion with learners and analysis of their work; analysis of provider records, documents and learner and employer questionnaires; and meetings with learners', employers, staff, governors and the providers' partners where appropriate to address gaps in the evaluation process". Considering the complexity of the

evaluation process, extensive training and institutional support is needed to enable an appropriate, timely and fit for purpose evaluation system.

HEI institutions have typically a quality coordinator. The quality coordinator position was a response to accreditation process initiated in 2008. Institutions are required to have a Quality Assurance Regulation that details the programme design, review and approval procedures.

The KAA established in 2008, initially had the role of the observer, because the Kosovo Authorities hired the British Accreditation Council from the UK to accredit all HEI with the exception of UP. From 2009, KAA has been responsible for exercising the external evaluation of the HEI through a one year long procedure containing 7 main steps. 1) Application, 2) Sending Self Evaluation Report (SED), 3) Institutional Visit 4) Additional Documentation Submission upon request of KAA 4) Accreditation Report 5) HEI comments and objections 6) Final report 7) Accreditation Decision.

The accreditation includes the following criteria which are reported through SED (Kosovo Accreditation Agency, 2013):

- 1) Institutional Criteria (Legal, Mission, strategy, organization and autonomy);
- 2) Study Programmes Criteria (Programme review and approval procedure, student admission policies, examination rules, and detailed programme offer including module descriptors, ECTS distribution, assessment procedures, literature and technology, research and other outputs);
- 3) Staffing (qualifications, employment relationship and work load for teaching, exams, consulting, administration activities, research;
- 4) Students (Progress, student finance support, student support services and representation);
- 5) Quality Management (Programme approval, programme review, evaluation instruments, follow up procedures), 6) Space and Equipment
- 7) International Cooperation.

While the process as a whole has not changed over 10 years, there are four main problematic issues regarding the accreditation: 1) Initial Application Process Procedures, 2) The quality of SED, 3) Composition of the evaluation teams and their reports and 4) Appeals.

The main problem with the application process is that it changes frequently with introduction of new methods, requirements and deadlines almost every year. The last Administrative Instruction approved in August 2017 will be used for institutions entering accreditation in October 2017. The new regulation contains a staff compliance procedure check that is decisive for institutions to enter phase 2.

After the institution is allowed to enter phase 2, institutions send SED in Albanian and English Language to KAA who forwards it to international experts. The SED is designed according to the Guide designed by KAA and usually represents a positive description of the institutions with unclear compliance indicators which is left to external evaluators to check during the accreditation visit.

The external evaluators are hired by KAA. In most of the cases, external examiners are guided by KAA interpretation for context, regulation, non-compliance practice and legal environment. For example, when accreditation teams concluded that a denomination of a public university does not comply with legal requirements, the decision to accredit them as universities was nodded through due to legal interpretations provided by KAA for the establishment of the universities. Similarly, the requirement to have full time and associate professors for each programme represented a problem for private

providers who were not allowed to award academic title. When private providers complained that they cannot award academic titles because MEST did not approve regulation, KAA decided to exclude the requirements for full professors and associate professors in practice, because otherwise most of the programmes especially at private providers would be affected. The designation of institutions and academic tenure is crucial for the effectiveness of the system and equality among public and private providers. The Council of Europe report argues that in order to ensure integrity of institutions the criteria for the designation of HEI and academic appointments should be applied rigorously (Smith & Hamilton, 2017).

A major problem in the accreditation process is the phase of complaints. While the KAA director and the staff act like project managers who prepare materials for NQC and liaise with the external experts, the President of the NQC participates in accreditation visits, as well as participates in decision making in NQC. The institutions appeal to the same body that issued the decision before going to the MEST or proceed to the court. The Appeal procedure does not comply with international standards.

The KAA is a member of the European Association for Quality Assurance in Higher Education (ENQA). KAA is officially independent body, although members of the NQC are nominated by MEST. According to Standards and Guidelines for Quality Assurance in the European Higher Education Area (ENQA et al, 2015, p. 18) "External quality assurance processes should be reliable, useful, pre-defined, implemented consistently and published". The standards also provision that "Complaints and appeals processes should be clearly defined as part of the design of external quality assurance processes and communicated to the institutions (ENQA et al, 2015, p. 20). According to the KAA website, there are 30 accredited institutions with 343 programmes. Only in 2017, KAA withdrew accreditation of five program memes and suspended 84 programmes only based on the staff employment compliance (Kosovo Accreditation Agency, 2017). This decision resulted with the dismissal of the NQC members with justification that NQC did not comply with regulation. As a result, for the moment KAA does not have a functional NQC and thus continues to face problems with trust and integrity of its operations.

Institutional performance is heavily influenced by other factors such as students, staff, legal environment and policies. Superficial implementation of reforms and lack of ownership ignored real problems and challenges in the Kosovar education system. Research and media reports contended that curriculum overload, school mismanagement and ineffective assessment procedures were key factors contributing to the poor performance of Kosovo schools and devaluation of ethics in education (Klinaku, 2011, Koha, 2012, Mehmeti, 2011, Devetaku and Mehmeti, 2010). In addition to school management and internal evaluation system problems, external examination results indicated poor performance and regressive outcomes in the learning culture (MEST, 2013). Anecdotal evidence, media reports and a MEST Strategy document suggest serious deficiencies in the invigilation of external examination system that promotes cheating (Shqiptar, 2011, Ahmeti, 2008, Klinaku, 2011, Kosova Sot, 2011, KESP, 2016). In general, it is argued that school performance should be investigated not only based on test results, but also on school effectiveness and other factors that influence learning culture.

4.5. The Study Offer and the Labour Market

Although the accreditation process foresees that labour market needs are taken into consideration for the approval of the programmes, at the same time many reports highlight a mismatch of labour market needs and the offer from vocational schools and higher education institutions (Gashi & Bartlett, 2016).

In terms of profiles, the student body in vocational schools is distributed in three main fields of study: Business, Engineering and Technology and Medicine.

Table 23: Number of Students in VET Programmes registered in 2017 according to Field of Studies

ISCED	Profiles/Field of Study	Grade 10	Grade 11	Grade 12	Total
01.0	Agriculture	1219	1077	763	3059
02.0	Architecture, Urban and Regional Planning	1152	943	688	2783
03.0	Art and Design	803	660	586	2089
04.0	Business Studies and Management Sciences	4964	4218	3499	12681
05.0	Education, Teacher Training	0	0	0	0
06.0	Engineering, Technology	4356	3210	2202	9768
07.0	Geography, Geology	405	389	368	1162
08.0	Humanities	554	544	352	1450
10.0	Law	954	779	877	2610
11.0	Mathematics, Informatics	1368	1450	1164	3982
12.0	Medicine	2683	2384	2110	7177
13.0	Natural Sciences	261	278	237	776
14.0	Social Sciences	0	0	0	0
15.0	Communication and Information Sciences	0	0	0	0
16.0	Other Areas of Study	0	38	12	50

Source: SMIA, MEST. No data available for private providers

Similarly, the highest number of students enrolled in the first year in 2016 according to SMIAL data is in Business Studies and Management Sciences, followed by Law and Medical Sciences.

Table 24: Enrolment of Students in Public and Private Higher Education Providers

Code	Erasmus Subject Area	Public	Private	Total
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01.0	Agricultural Sciences	1122	82	1204
02.0	Architecture, Urban and Regional Planning	377	995	1372
03.0	Art and Design	320	479	799
04.0	Business Studies and Management Sciences	4581	3308	7889
05.0	Education, Teacher Training	2235	62	2297
06.0	Engineering, Technology	1345	1155	2500
07.0	Geography, Geology	568	0	568
08.0	Humanities	339	0	339
09.0	Languages and Philological Sciences	1456	780	2236
10.0	Law	2737	2045	4782
11.0	Mathematics, Informatics	760	450	1210
12.0	Medical Sciences	576	3236	3812
13.0	Natural Sciences	370	0	370
14.0	Social Sciences	1162	1908	3070
15.0	Communication and Information Sciences	190	599	789
16.0	Physical Education, Sport Science	233	293	526
	Total/ All Subject Areas	18371	15392	33763

According to Gashi and Bartlett (2016) employers are dissatisfied with the skills that HEIs' graduates possess. Graduate skill shortage is not only barrier but also cost to the business operation. In terms of skill gaps, Gashi and Bartlett (2016.p.45) report a gap in so-called interactive skills which include analytical and problem solving, adaptability, communication, decision making and planning and organization skills. The gap is reported to be higher in the public sector and in international organizations (Gashi & Bartlett, 2016). In terms of skill mismatch, Gashi and Bartlett (2016, pp. 48-50) argue that the vertical mismatch, referring to a situation "where an employee has a qualification either above or below the skill level needed to do the job" is reported to be higher than horizontal mismatch, referring to a situation" where the employee has a qualification in a field of study that is not required by the job held". The same report reveals that 42% of graduates surveyed are overqualified for the job they do and 12 % are underqualified. Gashi and Bartlett (2016) suggest that shortage of graduates is evident only in the field of Education, Information and Technology and Engineering and Manufacturing. As there similarities on degrees offered both at level 4, 5 and 6, students in lower levels may be disadvantaged as employers tend to employ those with higher levels of education. It seems that the basic assumption for the approval and accreditation of programmemes is not based on reliable data, thus allowing the accreditation of programmemes that create a surplus of graduates.

The increase of student numbers in tertiary education ameliorated the unemployment rate, as students active in education are not reported as unemployed. ASK employment data in the first trimester of 2017, reported 60.2 percent of new employees with higher education degree.

Table 25: Employment in first trimester 2017 according to level of education

	2017/ First Trimester (TM1)					
	Employment in thousands			Employment /Population Ratio (%)		
	Male	Females	Total	Male	Females	Total
No Education	0.3	0.3	0.7	3.9	1.5	2.1
Primary	46.9	14.7	61.6	28.4	5.1	13.5
VET	100.1	18.0	118.1	48.3	15.0	36.1
Gymnasium	60.6	11.7	72.3	45.1	12.4	31.7
Tertiary	63.0	32.5	95.6	68.7	48.5	60.2
Total	270.9	77.3	348.2	44.6	13.0	28.9

Source ASK, 2017

While higher levels of education may increase employment opportunities, under-skilling resulting from poor quality of education causes skill mismatch and unemployment. The KAA evaluation reports for individual institutions highlight the under skilling of students especially at master level in comparison to level 7 outcome NQF descriptors. Other reports also emphasize lack of research activities in higher education institutions and student support services such as careers and soft skill development. Increasing student intake in public and private institutions did not correspond with the improvement of the research and innovation component, because HEIs mainly concentrate costs to the salaries of their staff. Moreover, increasing student intake increased teaching burden of staff and HEIs did not develop adequately internationalization policies and programmes thus decreasing the potential for exchange and cooperation in international research.

5. ORGANISATIONAL AND FINANCING OPTIONS FOR ESTABLISHMENT OF AN EMPLOYMENT FUND IN KOSOVO

5.1. Introduction

The labour market of Kosovo is characterized with many challenges, including low employment and participation rates, high unemployment, large mismatch between supplied and demanded skills, and low job creation. Despite the recent improvements in the labour market, unemployment remains the main economic and social challenge. Kosovo has the highest unemployment in Europe, as well as with the most pronounced gender differences in participation and employment rates (along with Bosnia and Herzegovina). In such difficult labour market (and general economic) environment, young people face particularly big challenges. The unemployment rate of youth was 57.7% in 2015, and there are evidences of long and difficult transition from school to work. Although the proportion of inactive youth who are not employed or attending education / training (NEET) has decreased during the recent years, it is still very high, at 30.1% in 2016 (from 35.1% in 2012). For comparison, the NEETs average rate in the EU was 18.3% in 2016 (for the age group 20-34). In addition, Kosovo faces large demographic challenges, having youngest population in Europe, which also puts additional pressure on the labour market (given the large number of labour market entrants).

Despite the recent recovery in growth rates, growth has been insufficient to significantly improve the labour market performance. Moreover, the limited fiscal space reduces the institutional ability to boost demand and job creation. The dominance of micro firms with low survival rates reduces the ability of the economy to create sufficient number of jobs.

During recent years, public finances of Kosovo can be characterized as relatively stable, with increasing fiscal discipline and keeping public debt at sound levels. Still, the investment needs of the economy are quite large, including the need to support job creation.

In July 2015, Kosovo signed a 22-month financing agreement (Stand-By-Arrangement) with the International Monetary Fund (IMF) in the amount of €184m. Within the agreement, Kosovo has pledged to implement fiscal rules that limit the possibility of increasing expenditures on regular budget lines or even on capital investments, although with some room for borrowing from the international financial institutions beyond the fiscal deficit limit for capital investments. Hence, Kosovo limited its deficit to 2% of GDP and public debt to GDP ratio at 30%.

5.2. Strategic planning and directions

Kosovo's policies in the area of employment and social welfare are interlinked with the EU association agenda, and in line with the commitments and objectives of the European Reform Programmeme (ERP), the Stabilization and Association Agreement (SAA) and the European Reform Agenda (ERA). Employment and labour market are inevitable part of these but also other national-level strategic documents, being recognized as top priority for improvement.

The ERP 2017-2019 acknowledges the many obstacles for efficient functioning of the labour market, including the need for significant improvement of the capacity of employment services. The high level of structural unemployment (of youth, women, and long-term unemployed) results in a burden on public finances, high dependency of youth on support schemes and families, and reduces the potential for long-term economic growth. The ERP aims at improving the capacities in public employment

offices which are currently burdened by lack of staff (there are about 1200 jobseekers per adviser), but also to improve the skills of the staff for more effective matching between job seekers and employers. In this regard, the ERP 2017-2019 sets one specific measure for the employment policy, that is: Improvement of employment services through functionalising the Employment Agency and active labour market programmes. This measure practically aims at establishing a fully functional employment agency, including staffing, staff skills, etc.

Kosovo signed the SAA with the EU in November 2015, which has created contractual obligations for Kosovo in the reform agenda, including in the field of Labour and social welfare. The SAA and the implementation plan, among other things, define specific measures in the field of employment and social welfare, first of all in the approximation of Kosovo's legislation with the EU Acquis. In November 2016, Kosovo and the EU signed the ERA which does not aim to replace existing strategies but to help prioritize specific actions that can be implemented in the short term to secure the commitment of the Kosovo Authorities through adequate allocation of resources as well as engagement of other stakeholders, both local and international. The short-term priorities for which Kosovo is committed in ERA are outlined in Figure 52.

Figure 52: Kosovo's short-term priorities in ERA in the field of employment

3.1. Adoption and implementation of the Sector Strategy for Employment and Social Policy 2017-2020 and the adoption of the 2017-2020 Action Plan for the implementation of the Strategy

3.2. a) Creating an action plan for addressing youth unemployment based on an assessment of challenges and focusing on improving education outcomes and supporting school-to-work transition.

b) Undertake measures to increase women's participation in the Labour market.

3.3. Ensure enforcement of the law on the employment agency, in particular through the functioning of the employment agency and the budget allocation needed to ensure that it is able to initiate active Labour market measures with tangible results.

3.4. Promote better links between higher education and the Labour market by facilitating and encouraging the establishment of industrial boards at universities which advise HEIs on the importance of curricula, identifying shortcomings in graduate skills, participation in training and teaching (visits, seminars) and provision of training and practical experience for students

3.5. Improve the quality of Vocational Education and Training (VET) and transition from school to work.

On a national level, the main strategic document is the National Development Strategy (NDS) for the period 2016-2021, which was enacted in February 2016. The NDS has the function of the framework document and policy orientation at institutional level. Out of the 34 measures envisaged in the NDS, three are more directly related to the challenges of employment and social welfare, while others are more indirect. In the framework of better strategic (horizontal) planning, the Kosovo Authorities have also adopted the Strategy for Improving Planning and Coordination of Policies (IPS) 2016-2018, which aims to ensure cohesion between horizontal and vertical (sector) strategies.

The authorities prepared a National Employment Strategy 2017-2021 which is expected to be adopted soon. The Strategy sets the following strategic objectives:

Strategic objective 1: To increase employment, develop skills in line with the demands of the labour market and improve administration of the labour market

Strategic Objective 2: Enhancing social welfare through expanding and enhancing the quality of protection and social and family services, with a particular focus on vulnerable groups and gender equality;

Strategic Objective 3: Realization of rights to benefits for pensioners and pensioners of conflict participant categories through the development of a sustainable pension system, harmonization of the legal framework and institutional, human and technological capacity building;

Strategic Objective 4: Improving working conditions and reducing informal employment by strengthening oversight mechanisms and strengthening social dialogue.

Strategic objective 1 is most relevant for the present study. Within that objective, there are four specific objectives which are particularly important for the employment policy and directly related to this study. These are:

Specific objective 1.1: Building capacity of public employment services

Specific objective 1.2: Expand and diversify employment services and AALM, and increase their efficiency and quality

Specific objective 1.3: Provision of quality vocational training services in line with labour market needs

Specific objective 1.4: Increase youth employment.

5.3. Employment Policy in Kosovo - Institutional arrangement, management and financing

5.3.1. Recent changes in the institutional and organizational structure

Until recently, the employment services and active labour market measures (ALMM) were developed and provided by the Ministry of Labour and Social Welfare (MLSW) in the Division for Employment and Vocational Development Policies, within the Department of Labour and Employment. The MLSW had several implementation agencies/mechanisms: 7 Regional Employment Centres; 23 Employment Offices (EOs) and 6 Sub-offices; 8 Vocational Training Centres (VTCs) and 5 Mobile Centres. EOs were tasked to register and profile the unemployed (and other job seekers) and provide counselling and mediation in regular employment or access to ALMM. VTCs provide vocational training and retraining through modular short-term training.

In 2014, the authorities enacted a Law on Employment Agency of Kosovo (EARK) (Law No. 04/L-205) which should combine all these services. The Agency will act as a public provider of services in the labour market, with main goal to manage the labour market and to implement employment and vocational training policies. The integration of the functions and services of the EARK ensure that the clients interact exclusively with one consultant to get all the services; employment consultation services, career orientation, capacity enhancement or mediation. It follows the PES model of the developed European countries as well as of the Western Balkan (WB) countries. According to the ERP 2017-2019, the EARK will become fully operational in 2017 although some activities (mainly staff training) will be completed in 2018. Policy-making and oversight of the EARK will remain the responsibility of MLSW.

The EARK (Central office) has the following responsibilities:

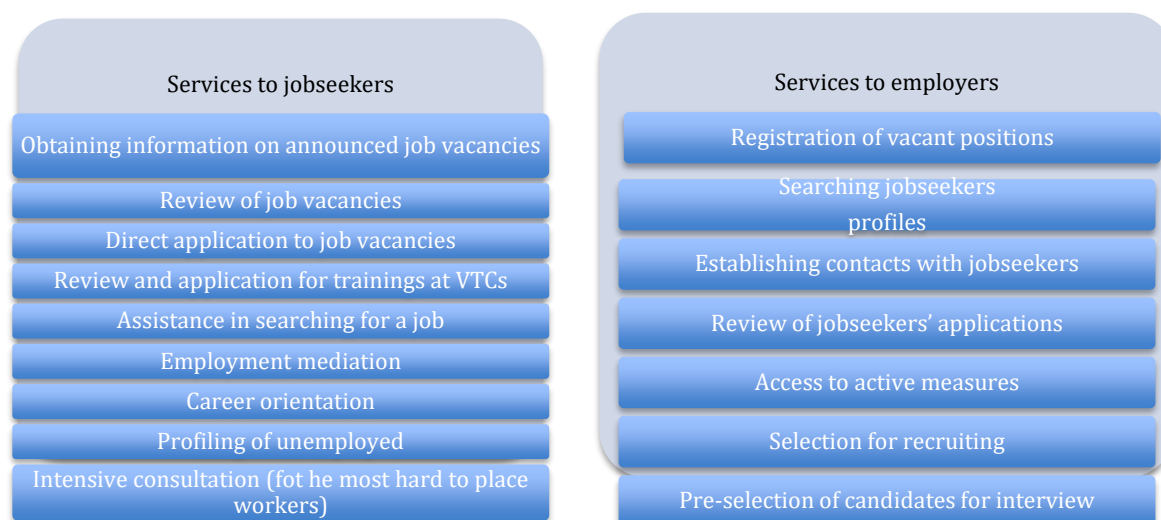
- MLSW policy implementation in the field of employment, vocational training and rehabilitation;
- Monitoring and coordinating the implementation of the ALMMs;
- To provide information on the labour market, labour market analysis, surveys and studies of the needs of the labour market as well as the dissemination of information with relevant stakeholders at all levels;
- Development of curricula, teaching materials and assessment procedures under the National Framework of Qualifications including certification of candidates and recognition of prior learning;
- Contracting the services from accredited non-public providers in the field of vocational training, advanced profiles and profiles that do not take place in CVT;
- Counselling and provision of information regarding the labour migration; etc.

The tasks of the EOs are the following:

- Registration, record keeping and updating information on job seekers;
- Job brokerage i.e. job mediation between workers and jobs, and guiding unemployed to specific training or ALMMs;
- Provision of information and counselling services to the unemployed and job seekers with a view to their employment, based on the profiling;
- Provision of career orientation and the possibility of lifelong learning based on an assessment of their needs;
- Preparation of individual employment plan for vulnerable groups;
- Design, implementation and monitoring of different types of ALMMs;
- Provision of statement of unemployment for the social assistance beneficiaries.
- VTCs have the following obligations (article 8):
- Offering professional training services required by the labour market;
- Assessment and certification of candidates;
- Recognition of prior learning;
- Monitoring of other training providers that develop trainings in agreement with the agency, assessment and certification of candidates;
- Preparation of individual training plan for the candidate who carry out practical work in companies as well as monitoring, evaluation and certification; etc.

Following groups can be customers of the EARK services: unemployed, jobseekers, employers, employees and foreign nationals who intend employment in Kosovo.

Figure 53: Services provided by EARK to its main clients



Source: EARK (2015) Operational Manual

We should note, though, that the range of services available both to jobseekers and employers depend on whether the persons/firms are registered with the EARK or not. For instance, services for pre-selection of candidates for interview or for selection for recruiting are offered after the employer registers a job vacancy in the online platform and requests such service. On the other hand, firms that prefer to use direct services from consultants of the EOs can receive all the services elaborated above, including also services for pre-selection of candidates, interview or selection for recruiting. Similarly, for the jobseekers, a difference is made whether they are only registered in the online platform of the EARK or they visit the EOs. The latter group receives more services. In addition, those unemployed that will be profiled as hard-to-place workers receive more intensive counselling relative to the other workers.

The Law also enables private providers of employment and vocational training services to the workforce, which should undergo a process of licensing/accreditation. Moreover, the EARK may use the services of the accredited non-public providers for provision of employment and vocational training services.

According to the Law on EARK, the functioning of the Agency will be financed by the budget, as well as donor support. The budget of the Agency will be a separate budget line within the budget of the Ministry of Labour and Social Welfare. It will be defined and approved within the regular budget process, in line with the Law on Public Financial Management and Accountability. In addition, vocational training which is organized and provided through the EARK (in particular, the VTCs), will be a separate budget line within the EARK budget. In addition to the budget revenues, VTCs can be financed by donors, as well as through revenues generated through the sale of created products of vocational training centres. VTCs can use those revenues for purchase of training materials and the purchase of services from other providers.

5.3.2. Fiscal and staff capacities of the EARK

The current implementation of employment policy in Kosovo faces several challenges which include: limited financial and human resources, low scope of the ALMMs, types of ALMMs that have been implemented historically, ongoing organizational changes, etc. One of the major strengths, on the other side, is the developed management information system which can be used as excellent basis for developing monitoring and evaluation. This section provides more detailed analyses of the current capacities of the EARK (actually the MLSW which was performing the tasks of a PES until recently). This analysis is complemented by a comparative analysis of the Western Balkan countries which can serve as a good yardstick given that they share similar economic development.

5.3.3. Spending on ALMMs and services

In 2015 and 2016, the overall spending on ALMPs in Kosovo was about EUR 1.8 million, whereas the planned expenditures increased in 2017 to EUR 2.1 million. Given that there are about 101,773 unemployed in 2016, the average spending per unemployed in 2016 was EUR 17.7, whereas the spending per participant was about EUR 250-300, on average, in the period 2013-2016. Spending is low if analysed through total spending as a share of GDP, at about 0.03%-0.035% of GDP. This spending includes both expenditures for implementation of active labour market measures (ALMMs), as well as the expenditures for the EARK services, such as registration and counselling, intermediation, etc. Within the overall budget for ALMPs, around 40% per year is spent on services, rather than on ALMMs (see Figure 55). Due to the limited financing, part of the funds for the ALMPs, the implementation of the ALMMs is mainly done with the support of donors (with the exception of VTCs with a relatively stable budget). Providing a precise calculation of the overall spending on ALMMs in Kosovo is difficult due to several reasons: i) the large donors' support which is coordinated but only to a certain extent, ii) other institutions apart from the MLSW implement some types of ALMMs (such as the Ministry of Culture, Youth and Sport, Ministry of Education, Science and Technology, etc. and iii) part of the donor support is distributed on a municipal level. Box 1 presents some details on the donor support for ALMMs.

Box 2: Donor support and coordination

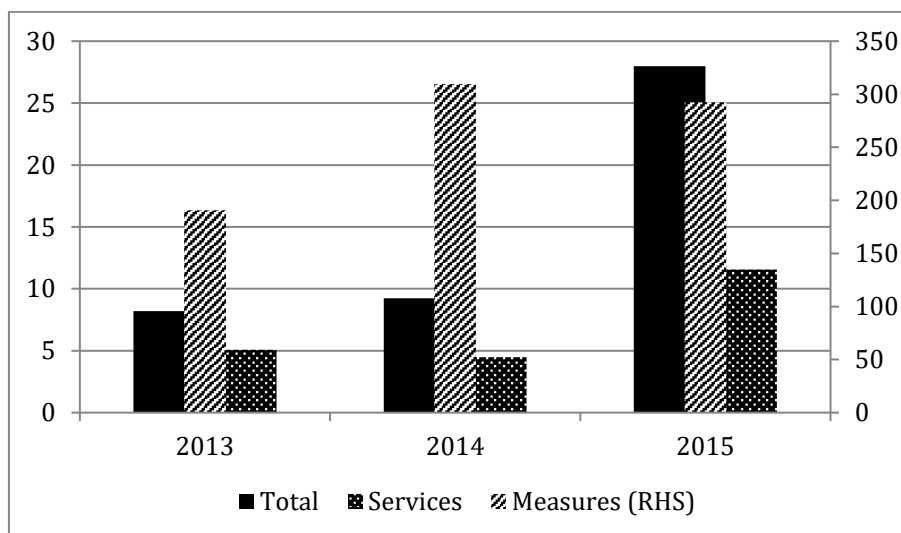
The Kosovo Authorities, supported by the European Union Office to Kosovo (EUO), have implemented the Aid Management Platform (AMP) as a tool for the authorities and donors to track and share information related to aid-funded activities (see: <http://amp-mei.net/portal/?language=en>). The AMP provides details about the donor support in all areas, including employment policy and particularly ALMMs, both at national and municipal level.

Based on the information provided in the database, approximately EUR 15 million were received as a support for ALMMs in the period 2013-2017 (as a narrower category of employment) in the period 2013-2017. This means that Kosovo has received a support of EUR 3.7 million per year, on average, which is double the public funds that are used for ALMMs. Most of the projects found in the database are related to youth employment and women, either as on-the-job training programmes or support to entrepreneurship.

In addition to the insufficient financing, a large constraint to increasing the scope of the ALMPs and provision of quality measures is the large workload to the EOs staff. In particular, out of the 190 staff employed within the employment offices, only about half work with the unemployed. Hence, the ratio between the number of case-workers and the number of registered unemployed is about 1:1,100 (MLSW, Employment Strategy 2017-2021).

Figure 54 shows the spending per participant per category of ALMPs, split into services and measures (ALMMs) between 2013-2015. As the Figure shows, the spending per participant in ALMMs increased substantially between 2013 and 2014, but then slightly declined to about EUR 300 in 2015. On the other hand, costs of services per participant were stable in 2013 and 2014, but then more than doubled in 2015 (to EUR 11.50 per participant). This is almost solely driven by declined number of participants, coupled with almost the same costs of the previous year.¹¹ These developments substantially increased the average spending per participant in ALMPs, from EUR10 in 2013-2014 to EUR28 in 2015.

Figure 54: Spending per participant by category



Source: Monastiriotis et al. (2017)

The report by Monastiriotis et al. (2017) finds that expenditures on ALMPs in the Western Balkans in general are uncharacteristically low, both by comparison to the EU average and by comparison to other countries from the wider region which are now member states of the EU (Bulgaria, Romania, Croatia and Slovenia). On average (unweighted) across the Western Balkans, ALMP spending represents around 0.12% of GDP (although Montenegro significantly increases the regional average by spending 0.41% of GDP). The spending ranges between 0.03% in Kosovo and Albania and 0.09% (in Republic of North Macedonia). This is comparable to the figure for Romania (0.09%) but compares very poorly to the figures found in Bulgaria (0.22%), Croatia (0.23%) and Slovenia (0.37%), as well as to the average of the EU former transition countries (0.31%) and of course of the ‘western’ EU countries (0.72%).

¹¹ The decrease of number of participants was in the category of information services category under the programme “Registration and counselling of unemployed persons”.

Box 3: IPA II 2014-2020

The IPA 2015 programme, under the IPA II financial framework, was approved by the IPA Committee on 25 November 2015 with an EU contribution of EUR 78 million, complemented by co-financing from Kosovo for an overall budget of EUR 81 million. In 2015, the EU Office (which is in charge of administering the IPA funds) signed 111 contracts for projects in Kosovo for a total of EUR 55.3 million. Moreover, the EU Office also has an important role in the donor co-ordination. Along with the Kosovo Ministry of European Integration they organize regular donor co-ordination meetings.

According to the Strategy Paper for Kosovo 2014-2020, the European Commission notes that there is an increased risk in the employment sector that the “institutions will rely too heavily on donor funding and neglect its own funding responsibilities” (p.22).¹ As the EC notes, the current budget allocation is too small to meet the need for the active measures in Kosovo, and hence the “IPA support in this area will therefore be made strictly conditional on the Kosovo Authorities own sustained investment in the sector” (p.22).

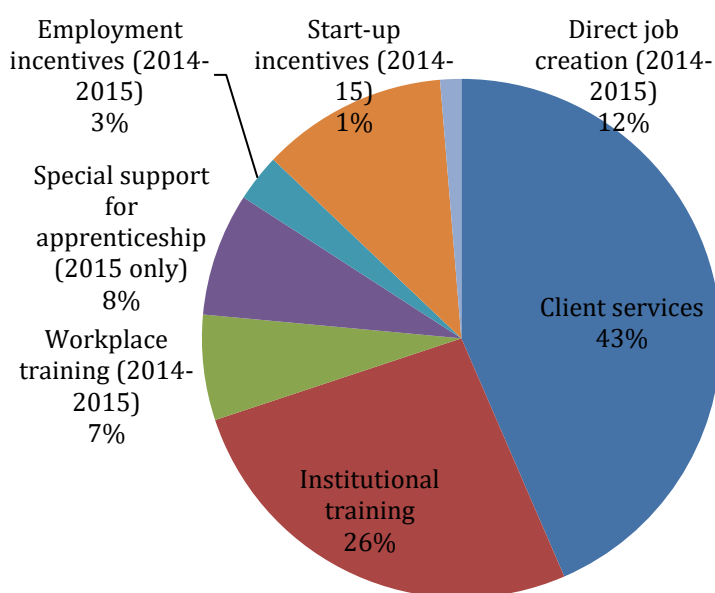
So far, the IPA support to the employment policy was mainly in a form of technical assistance, supporting the legislative framework and policy development. Within the IPA II (2014-2020), a total funding of EUR 645.2 million is allocated for Kosovo for the period 2014-2020. Of those, EUR 94.2 million are planned for Employment, social policies, education, promotion of gender equality and human resources development.

5.3.4. Types of ALMPs

Concerning the allocation of total expenditures on ALMPs, labour market services account for some 43% of total ALMP spending over the period 2013-2015. Regarding the expenditures on labour market services, although there is a large variation across the EU countries, the spending is much lower than in Kosovo (for instance, 5.2% in Bulgaria, 7.8% in Croatia and 10.5% in Slovenia, in 2015) (<http://ec.europa.eu/eurostat/data/database>). Within the WB region, the spending on services ranges between 2% of overall costs for ALMPs in Albania to 15% in the Republic of North Macedonia.¹² This shows that there are substantial cost-saving options in provision of the services.

¹² This data are derived from the report of Monastiriotes et al. (2017), for a project financed by the Regional Cooperation Council. However, given that this type of data is not readily available in the WB region, we should treat the data with caution.

Figure 55: Allocation of expenditures across categories



Source: Monastriotis et al. (2017)

Kosovo implements quite a diverse range of active measures, including measures such as start-up incentives, direct job-creation, support for apprenticeships (including by placements in Germany) and various forms of training, recruitment incentives etc. Training accounts for 33% of total average annual expenditures, while measures for direct job creation account for another 12%. Employment incentives account for only 3% of total expenditures on an annualised basis, an amount that is very small in comparative perspective (Figure 55).

In the comparative perspective of the WB region, there is a relatively large degree of diversity of the types of ALMMs implemented, with perhaps four distinct groups: one formed by Albania and Kosovo, where effort is directed mainly on traditional labour market measures; a second formed by Bosnia and Herzegovina and Republic of North Macedonia, where a significant effort is allocated on start-up incentives; a third group represented by Serbia, where the focus is on training incentives and flexible workforce; and last a group represented by Montenegro, where effort is uniquely concentrated on direct job creation (Monastriotis et al., 2017).

Low spending on ALMPs in Kosovo is inevitably related to the low number of beneficiaries, despite the recent progress. In 2016, the number of beneficiaries of ALMPs increased by 50.2%, reaching 10,419 out of 6,936 in 2015, which constitutes about 10.2% of total number of registered unemployed persons. However, within this relatively large ratio, most unemployed are participants into VTC training, whereas only 2.7% of the unemployed in 2016 participated in some type of ALMM.

In recent years there has been a noticeable increase in key performance indicators of EOs and VTCs. The total number of employment mediations increased by 32% in 2015 compared to 2014, and by 29% in 2016, due to increased number of registered jobs and increased number of participants into active measures. Within the EU countries, the share of registered unemployed that participated in some active programme varies substantially, from about 2.7% in Bulgaria, up to 50% in Belgium and 54% in Denmark in 2015 (<http://ec.europa.eu/eurostat/data/database>).

5.4. Organization of the Public Employment Services across the world and the Western Balkan countries

The comparative analysis presented in this section is mainly based on two reports, one being produced by the World Association of Public Employment Services-WAPES (WAPES, 2015) which is based on comparative analysis of 73 PES around the world in 2014 and the other one of the Regional Cooperation Council, which involves analyses of the performance management of the PES in the WB countries.

5.4.1. Institutional organization

WAPES 2014 survey implemented in 73 countries/PES around the world identified five different types of organizational models of PESs. In most cases, the PESs are organized as a public agency responsible to the respective ministries of labour which operate within their established organizational line structures (regional/local units). The next most-frequent type is the PES which is organized as a department within ministry of labour, with own organizational line structures or external service provision (WAPES, 2015). Within Europe, including the Western Balkan region, PESs usually operate as executive agencies of the Ministry of Labour, whereas in Croatia, Slovakia and Slovenia PESs are legal entities with a status of a public institute or service. There were examples where PES was set as an organisational department within the Ministry of Labour (for instance, in Hungary) which is not the case anymore. As previously explained, the new structure of the EARK is fully in line with these developments.

Table 26: Examples of institutional organization of PES across the WB countries and some EU member states

Country	Institutional arrangement
Albania	The National Employment Service is a public autonomous agency classified as a Central State Administrative Unit and is regulated by the Statute of the National Employment Service and approved by the Decision of the Council of Ministers in 1998. It is an implementing agency of the Ministry of Social Welfare and Youth (MSWY) and is under the responsibility of the Minister. While the PES status has not fundamentally changed over the past three years, responsibility for the Vocational Training Centres has been transferred from the MSWY to the PES.
Montenegro	The Employment Agency of Montenegro is a national authority within the state administration operating as a separate body but with very limited autonomy. It is supervised by the Ministry of Labour and Social Welfare (MLSW). The autonomy of the PES declined with the Law on Civil Servants from 2013. The most significant change is that the Institute lost independence in budget management and recruitment.
Republic of North Macedonia	The Employment Service Agency is a public institution with a mandate to perform the professional, organizational, administrative and other services related to employment and insurance in cases of unemployment (Law Employment and Insurance in Case of Unemployment, Official Gazette No. 112/2014, article 4). ¹³ The PES acts as a separate

¹³ In 2015 and 2016 additional small changes were made to the Law, with the most recent change to the Law made in 2016, published in Official Gazette No. 27/2016.

	agency and is an implementing body of the Ministry of Labour and Social Policy (MLSP). The organization of the Agency, responsibilities and management, are regulated in the Statute which is approved by the Kosovo Authorities.
Serbia	The National Employment Service has a status of legal entity as an institution for mandatory social insurance, along with two other bodies: The Pension Fund and the Health Insurance Fund. It is ultimately under the control of its parent institutional department, the Ministry of Labour, Employment, Veterans, and Social Policy (MoLEVSP).
Bulgaria	The National Employment Agency is an executive agency to the Minister of Labour and Social Policy for the implementation of the Kosovo Authorities' policy on employment promotion. The Agency conducts its activities within the corresponding legal framework: The Act on Employment Promotion, the Regulation on its application, Labour Code etc.
Croatia	The <i>Hrvatski zavod za zaposljavanje</i> (HZZ) was established under the Act on Employment Mediation and Unemployment Entitlements as a public institution owned by the Republic of Croatia with the task of resolving employment and unemployment related issues in the broadest sense of the terms.
Slovenia	Employment Service of Slovenia is one of the key Slovenian labour market institutions. It is an independent legal entity with public institute status operating uniformly across the entire country.

Source: Monastriotis et al. (2017) for the WB countries and websites of the PES in Croatia and Slovenia.

The overview of the developed economies' experiences enables us to assess different ways in which PESs operate and the likely outcomes as well as the possible effect of PEAs on the PES' effectiveness and efficiency. Within the Western Balkan region, PESs are mainly organized as institutions which integrate the three major functions of the PES that are: the benefit system, placement and active programmes. If so, the PES could affect the job-search behaviour such that the unemployed will search more intensively, potentially reducing the average duration of unemployment spell, and hence unemployment.

5.4.2. Functions and services of the PES

The WAPES (2015) report collected information on the functions and services provided by the PES across the world. The functions under review were: job brokerage, labour market information, active labour market programmes, administration and management of unemployment benefits, administration of other benefits and labour migration. The services part is related to the services provided within the different functions and includes: job offer and job search services, job search support services, services for registration of vacancies, services to disseminate information on vacancies, personal support services for recruitment, additional services to employers, collection and dissemination of labour market statistics, provision of labour market information, active labour market policies, services to target groups, administration of benefits and labour migration. The report develops a specific typology of the PES in terms of the functions and services that they provide. If a PES is tasked to undertake five or six functions then it is said to be a comprehensive PES; core PES functions are if the PES implements three to four functions, and basic in case of up to two functions.

The 73 PES that were included in the study, were clustered into four clusters (combining functions and services), as presented in Table 27.

Table 27: Grouping of countries based on the functions and services they provide

Group 1	Group 2	Group 3	Group 4
Comprehensive set of functions and comprehensive services (16 countries)	Core set of functions and moderate to comprehensive range of services for job brokerage and a comprehensive range of services in labour market information (24 countries)	Comprehensive set of functions assigned as their duty, but a moderate range of services for job brokerage (9 countries)	Core set of functions and a moderate range of services for job brokerage (24 countries)
Albania, Austria, Belgium (Flemish Region), Benin, Croatia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Republic of North Macedonia, Moldova, Serbia, United Kingdom, China.	Algeria, Armenia, Australia, Belgium (Brussels-Capital Region), Belgium (Walloon Region), Cambodia, Cameroon, Central African Republic, Colombia, Dominican Republic, El Salvador, Guatemala, Guinea, Ivory Coast, Jamaica, Lithuania, Mexico, Morocco, Philippines, Slovenia, Sweden, Switzerland, Turkey, Vietnam.	Argentina, Brazil, Canada, Costa Rica, Japan, Netherlands, New Zealand, Russia, Ukraine.	Bahamas, Barbados, Bolivia, Burkina Faso, Chad, Chile, Comores, Democratic Republic of Congo, Ecuador, Gabon, Guyana, Honduras, Mauritania, Niger, Panamá, Paraguay, Perú, Suriname, Thailand, Togo, Trinidad y Tobago, Uruguay, Venezuela.

Source: Own presentation of the data from the WAPES (2015).

Around the globe, the most widespread services provided by the PES are job brokerage and ALMPs: 96% of the 73 PES included in the WAPES report stated they provide these two services (see Table 28). This is followed by the provision of labour market information/statistics (by 90.4% of the PES), etc. Least provided service is the administration of unemployment benefits (only by 34.2% of the PES).

Table 28: Services provided by Public Employment Services

	Yes	in % of survey respondents
Job brokerage	70	95.9
Labour market information/statistics	66	90.4
Active labour market policies (including activation measures) for job seekers and employers	70	95.9
Administration and management of unemployment benefits	25	34.2
Administration of other benefits	51	69.9
Labour migration	34	46.6

Source: WAPES (2015).

The most widespread combination of services is job brokerage, ALMPs, and labour market information. On the other hand, labour migration and administration of unemployment benefits are much less frequently provided by the PES. The unemployment benefits are more a legacy of developed, European economies but they are not quite widespread around the world. Even if there are unemployment benefits in some of the countries, they are not commonly administered by the PES. Within the WAPES report, PES in the following countries are tasked to administer the unemployment benefits: Albania, Austria, Croatia, Czech Republic, Denmark, France, Germany, Hungary, Republic of North Macedonia, Netherlands, Serbia, Slovenia, Switzerland, Turkey, etc.

Within the WB region, PESs are mainly organized as institutions which integrate the three major functions of the PES that are: the benefit system, placement and active programmemes (see Table 29). The only exception is Kosovo, where the EARK does not administer unemployment benefits. In some of the Western Balkan countries, PES has additional core responsibilities, such as the registration of new work contracts in Republic of North Macedonia.

Table 29: Assigned duties of PES

Service responsibility	Kosovo	AL	BA-FBiH	BA-RS	ME	RS	MK
Job mediation services	√	√	√	√	√	√	√
Provision of ALMPs	√	√	√	√	√	√	√
Unemployment/social benefits	x	√	√	√	√	√	√

Source: RCC, based on Performance Management Questionnaire of the WB's PES.

Table 30 presents information on the services which are provided by the PESs of the Western Balkan countries. As it shows, there is a general need for improving the use of online services both to jobseekers and to employers which may improve the automated job matching and lead to more time of the caseworkers to focus on those most in need i.e. vulnerable groups of unemployed. In addition, the contacts with the employers can be improved. In some developed countries, PES staff that works with employers is, for instance, specialized in certain industry which makes them better informed and prepared to work with the employers, to understand the needs of the industry/sector, etc.

Table 30: WB's PES provision of services

Service provided	Kosovo	AL	BA-FBiH	BA-RS	ME	RS	MK
Jobseekers can register online	√	√	x	x	x	√	√
Employers can post vacancies online	√	√	√	√	√	√	√
Individual action plan signed	√	√	x	√	√	√	√
Automated job-matching	√	√	x	x	√	√	√
Track ID for labour market status	√	√	√	√	x	√	√
Special section for employer contact	x	√	x	√	√	x	x

Source: RCC, based on Performance Management Questionnaire of the WB's PES.

5.4.3. Human resources and staffing

The quantity and quality of the staff of the PES significantly affects the quality of the services provided, as well as the final outcomes of the job mediation and active policies. Table 31 below presents comparative analyses of the main caseload ratios of Kosovo and some of the WB countries. As it shows, there is a large burden i.e. casework of the PES staff, which increases even more if we consider only the staff working directly with the clients (caseworkers). Whereas the internationally set appropriate ratio is 1:100, the actual ratio in the region is much higher, at 1,132 unemployed per caseworker in Serbia and 1,106 in Kosovo. The high workload is also evident by the ratio of unemployed per employment office.¹⁴

Table 31: Caseload ratios, 2016

	Unempl oyed	PES staff	Casewor kers	No. of offices	Unemployed /staff	Unemployed /caseworker	Unemployed/ office
Kosovo	101,773	190	92	32	536	1106	3180
Albania	119,710	323	200	n.a.	371	599	n.a.
Republic of North Macedonia	104,523	502	256	34	208	408	3074
Serbia	713,153	1,818	630	120	392	1132	5943

Source: Own calculations based on Monastiriotis et al. (2017) and data provided at the websites of the public employment services.

The WAPES (2015) report provides data on the caseload ratios in the 73 PES around the globe. It shows that most of the EU members included in the study (Germany, France, Hungary, Sweden, Czech Republic, Austria, Switzerland, Belgium and Finland) have a ratio of 1-100 unemployed per staff member. In addition, Slovenia, Belgium (Actiris), Netherlands and Croatia have ratio falling somewhere between 101-300 unemployed per staff. In Albania, Republic of North Macedonia, Serbia and Turkey the ratio of unemployed per staff is between 301-600, which is in line with the data presented in Table 31.

Table 32 presents the worldwide caseload of unemployed per employment office.

Table 32: Caseload Ratio: number of unemployed per office*

Unemployed per office	No. of countries	Countries
200-1000	5	France, Hungary, China, Germany, New Zealand

¹⁴ Data are based on number of employment offices that work directly with the unemployed, and not the central and regional offices which are mainly engaged in managing.

1,001-2,000	10	Czech Republic, Sweden, Belgium (VDAB), Slovenia, Philippines, Switzerland, Honduras, Moldova, Lithuania, Austria.
2,001-4,000	10	Croatia, Brazil, Ukraine, Thailand, Bahamas, United Kingdom, Benin, Cambodia, Denmark, Argentina.
4,001-8,000	12	Costa Rica, Australia, Uruguay, Panama, Serbia, Algeria, Japan, Armenia, Comoros, Albania, Belgium (Brussels-Actiris), El Salvador.

Source: WAPES (2015).

* We do not present the countries in which the ratio of unemployed per office is above 8,000 which is already an extremely high ratio.

What matters for the provision of timely and quality services to the unemployed (and employers) besides the caseload are the functions that the PES performs, services it offers, as well as training and development of the staff. In particular, if a PES does not administer unemployment benefits then the ratio of overall staff to unemployed is not comparable to the example of a PES that does not provide such benefits. Similarly, if a PES has well-developed IT system with functional on-line platform (so that at least some services are offered as a self-help services), then it needs less staff in relative terms to work with the unemployed or those that are hard-to-place unemployed.

Regarding the capacity of the staff, As Table 33 shows, the MLSW/EARK in Kosovo has quite advanced staff development system in which employees have written job profiles (meaning clear tasks to be performed), there is an initial training for each new staff member and continuous staff development. Only Albania and Serbia in the WB region have also all these three elements of the staff development.

Table 33: PES staff development

Human resource aspect	Kosovo	AL	BA-FBiH	BA-RS	ME	RS	MK
Written job profiles available	√	√	√	√	√	√	√
Job profiles available to all staff	√	√	x	√	√	√	√
Initial training plan for new staff	√	√	√	√	x	√	x
Continuing staff development	√	√	√	√	x	√	√

Source: RCC, based on Performance Management Questionnaire of the WB's PES.

5.4.4. Management structure

Another important aspect of the organizational and management structure of the PES is whether it has a Management Board. Historically, Management Boards evolved from the initial forms of involvement of both workers' and employers' representatives in the first labour exchanges in Germany, Austria, and Sweden (Weishaupt, 2011). Hence, the involvement of social partners in the management of the PES across Europe is common, but not that much around the world. In particular, WAPES (2015) found that 36 public employment services had a Management Board, which is about half of the sampled PESs.

Where the PES is a legal entity, its management board usually involves representatives of the social partners, that is the employers' and employees' representatives and institutional officials. There is a slight difference between countries in terms of the number of members of the Management Board as well as the relative strength of each partner (for instance, whether the number of institutional officials outstrip the number of representatives of social partners). This has an implication for the decision making, as these three groups have different goals, at least to a certain extent (for instance, trade

unions represent workers and hence they may consider unemployed as their competitors). Within the WAPES 2015 report, 80% of the PES who are managed by Management Board have a tripartite board.

Table 34 below shows the main information about the governance structures of the PES in the Western Balkan region. It shows that all countries in the region have high degree of autonomy, although they report to the ministries of labour. They also have established management/advisory boards. In Kosovo, the EARK will be also managed by an Advisory Board, however, compared to the other countries the Board is dominated by the Kosovo Authorities' officials. In particular, out of 9 members, 6 are from the Kosovo Authorities, one from employers' organization, one from trade union and one from the association of municipalities (presenting the local needs).

Table 34: Governance structure of the WB's PESs

Governance aspect	Kosovo	AL	BA-FBiH	BA-RS	BA-Brčko	ME	RS	MK
Report to Ministry of Labour (or equivalent institutional agency)	√	√	√	√	√	√	√	√
Has a degree of autonomy	x	√	√	√	√	√	√	√
Separate governing or management/advisory body	√	√	√	√	√	√	√	√
Social partners involved	x	√	√	√	√	√	√	√

Source: RCC, based on Performance Management Questionnaire of the WB's PES.

For comparison, the Management Board of the PES in Slovenia has 13 members of which 6 are Slovenian government representatives, 3 from the national employers' representatives, 3 from the national trade union representatives and 1 representative of the Economic and Social Council. In Republic of North Macedonia, the Board consists of 9 members of which 5 are institutional representatives. 2 are from the employers' organizations and 2 from trade unions.

5.5. Funding options

5.5.1. Insurance-based or tax-based financing

The funding structure of employment policies may influence the stability of funding over time and the type and quality of services provided due to political stakeholders' effects. By exploring the institutional diversity of PESs' funding structures, we provide the foundation for more detailed analysis of these and other issues. The second perspective is the consideration of relative budget shares of the types of the employment programmes, providing indirect indications about policy preferences in different PESs.

In general, there are two main approaches to financing employment policies, the *insurance-based* (social-security-fund) system and *welfare (tax-financing)* system. The choice of the financing system is important as it can affect the distributional effects of the system and the justice. Tax financing is represented by general institutional financing of the employment policy. The debate on whether to

rely the financing of ALMPs on general taxes or social security funds is old one and related to the procyclicality of the economy: when the unemployment is high, more funds are needed to finance ALMPs and vice versa. Therefore, social security funds are being accumulated in good times and spent in bad times, while general taxation may have a large burden to finance employment policies in low-growth environment.

In general, it can be expected that the systems that finance employment policies (both passive and active) through general taxation are more redistributive from a perspective of all workers compared to the insurance-based systems. In particular, in the latter systems, unemployment insurance contribution should provide insurance of the contributors/payers in case of possible unemployment, and hence these types of systems do not offer large redistributive role. However, there are also systems in which the financing is split between insurance and taxation financing of the employment, or at least where the PES deficit is covered by transfers from the general budget.

However, the practice shows that there is no large difference between the two, as large part of the social security funds are being generated in the current year (and not accumulate over time), as is the collection of taxes. Even if social security funds are not sufficient in particular year (e.g. in times of crisis), authorities are able to borrow funds on the domestic or international markets and hence cover any social need. In that line, Bingwen (2008) argues that investment by social security funds in many countries are contracted out to private financial companies, suggesting that prices are fully market-driven and likely declining in bad economic times. Hence, social security funds may actually not fully capitalize on their investment if these need to be released in times of low prices. However, as social security funds are state-owned, a stringent investment policy should be in place to prevent large busts. In most cases, the most conservative strategy is used, whereby social security funds are invested in institutional bonds. In this situation, social security funds need to sell the bonds in times of high unemployment – the same time in which the central authorities issue more bonds because of lower tax revenues. Hence, social security fund reserves may not relieve the central authorities' general funding problem as it has to compete with the bonds sold by the social security funds.

The discussion about the combination of general taxation and social security fund financing of employment policies is not about the availability and size of funds in times of crisis, however. Quite the contrary, during 2009, funds in many new member states on active but also on passive employment measures actually expanded. It seems that policy views are more important for the continuation or expansion of active policies than the origin of funding or even the level of the institutional debt.

The origin of funding, therefore, does not seem to be the primary importance of funding. Arguably more important for the sustainability of funding is that the contribution or tax rates suffice to cover future needs. Contributions can be invested in institutional bonds of the home country and taxes can be used to reduce institutional debts. In both cases the authorities need to borrow additional money on the capital markets when unemployment increases, either because the institutional bonds of the social security funds are capitalized or because the tax revenues are low.

More in general, the ability to make funds available in times of high unemployment is more important than the way funds are collected. When reserved funds are depleted or the institution is unable to borrow, it is too late to raise contribution or tax rates, since expenditures will rise faster than revenues. If no funds are available, little else seems to be left than to cut budgets, either of labour market policies or of other policies.

Given that there is no unemployment benefit within the current employment policy and system in Kosovo, there is no strong rationale in introducing unemployment insurance, from a theoretical perspective. However, by looking at the experiences of other countries (EU data are presented below), the financing of ALMPs through insurance contribution is still an option.

5.5.2. International experiences

Looking at funding sources, public funding clearly dominates. The most frequent type is national public funding, but regional and local public sources play a role as well. Public funding is often combined with other sources, ranging from contributions to unemployment insurance to private sector financing, donors, and customer fees (Table 35). Even though one and two funding sources cover PES in most of the PES surveyed in the WAPES (2015) report, there are also a considerable number of PES that have between three and five different funding sources.

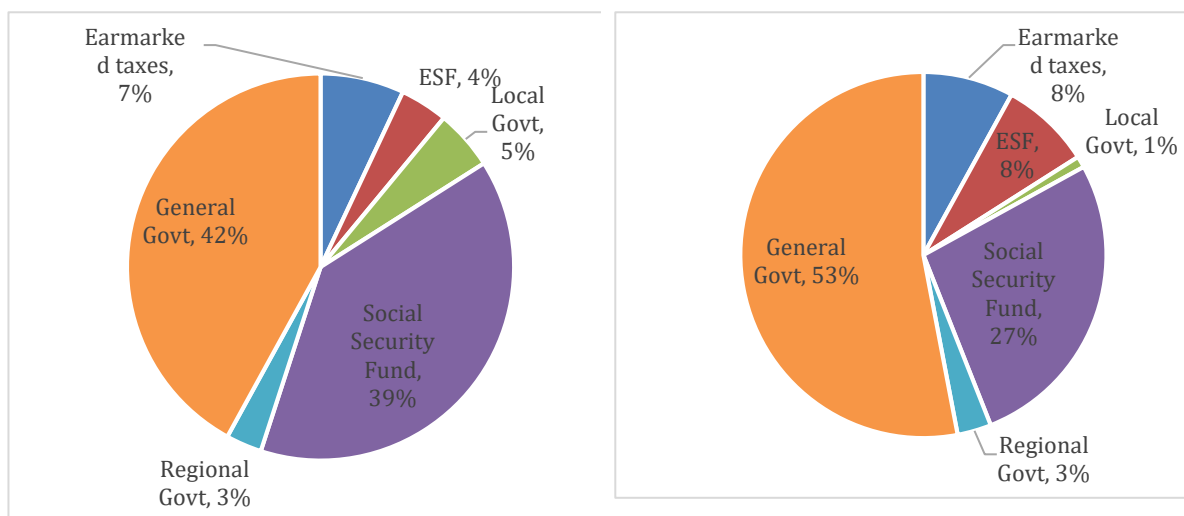
Table 35: Financing of labour-market policies

One funding source	
Australia, Barbados, Benin, Bolivia, Burkina Faso, Chile, Comoros, Czech Republic, Ecuador, Gabon, Guatemala, Guyana, Honduras, Hungary, Ivory Coast, Japan, Mauritania, Moldova, Morocco, Netherlands, New Zealand, Niger, Panama, Suriname, Sweden, Trinidad and Tobago, United Kingdom	Public funding (national level)
Belgium-VDAB, Belgium-Forem	Public funding (local level)
Austria	Contributions to unemployment insurance
Public employment services with two funding sources	
El Salvador, Slovenia	Public funding (national level) and other sources
Republic of North Macedonia, Serbia, Turkey	Public funding (national level), contributions to unemployment insurance (although the three countries are also using IPA funds)
Public employment services with three funding sources	
France, Switzerland	Public funding (national), unemployment insurance, and other sources
Albania	Public funding (national, regional, and local level) and donors
Public employment services with four and more funding sources	
Germany	Public funding (national, regional, and local level), contributions to unemployment insurance, and other sources (EU funds)
Croatia	Public (national, regional, local level), donors, private sector funding (EU funds)

Source: WAPES, 2015.

Similarly, in some countries of the European Union, a single source is used, being either general taxation or social security funds, while in others combination is used of the two, as well as other sources (like donations, EU structural funds, local funds etc.). Figure 56 presents the shares of funding of all labour market measures for the EU-15-member states (old member states, left) and new member states (right).

Figure 56: Funding of labour market policies in the EU (2008)



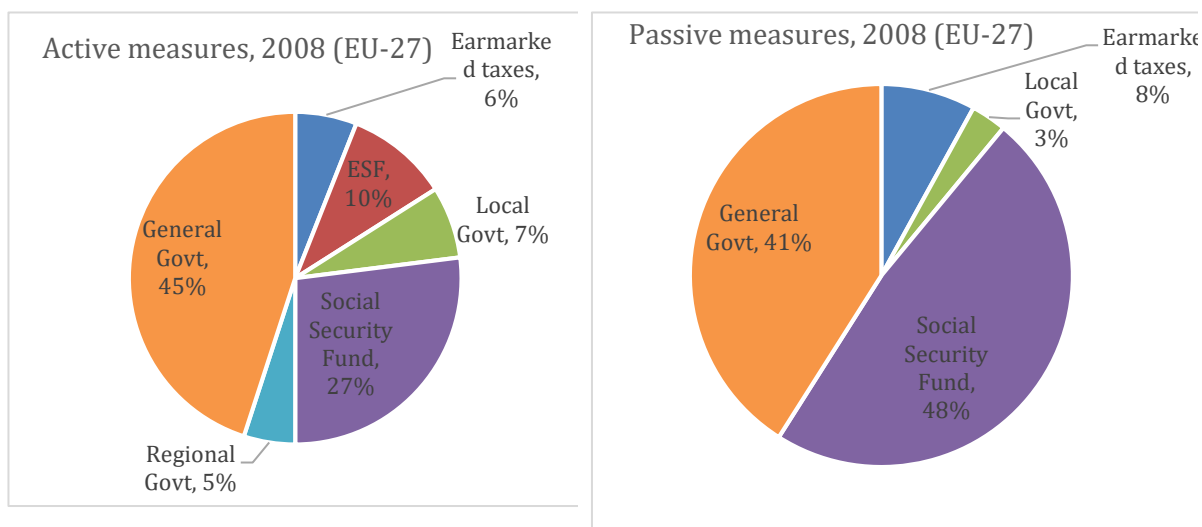
Source: ECORYS/ IZA (2012).

The shares of the general government and social security funds in the old member states is somehow equalized, while in the new member states general taxation plays more prominent role: more than half the funds for financing of labour market measures is sourced in general taxation. In both groups, small role is secured from the earmarked taxes, local and regional governments, as well the European Social Fund (ESF). Still, the importance of the local funds is much lower in the new member states (1% of total funds) than in the old (5%).

Further differences arise when the overall labour market policies are split on active and passive measured.

Figure 57 presents this difference. Expectedly, passive measures predominantly rely on the social security funds, although the size of funding from general taxes is as large. On the other hand, the importance of social security funds declines for active measures, as slightly above a quarter of active measures funds is sources in social security, while 45% in general taxation. ESF, local and regional funds are also important in financing active measures, and potentially more important than financing passive measures. If out-of-work income support is excluded (being predominantly financed from the social security funds), then the role of general budget for financing active labour market programmes further increases. For some specific measures, like job sharing, job rotation and employment incentives, the share reaches even 70%.

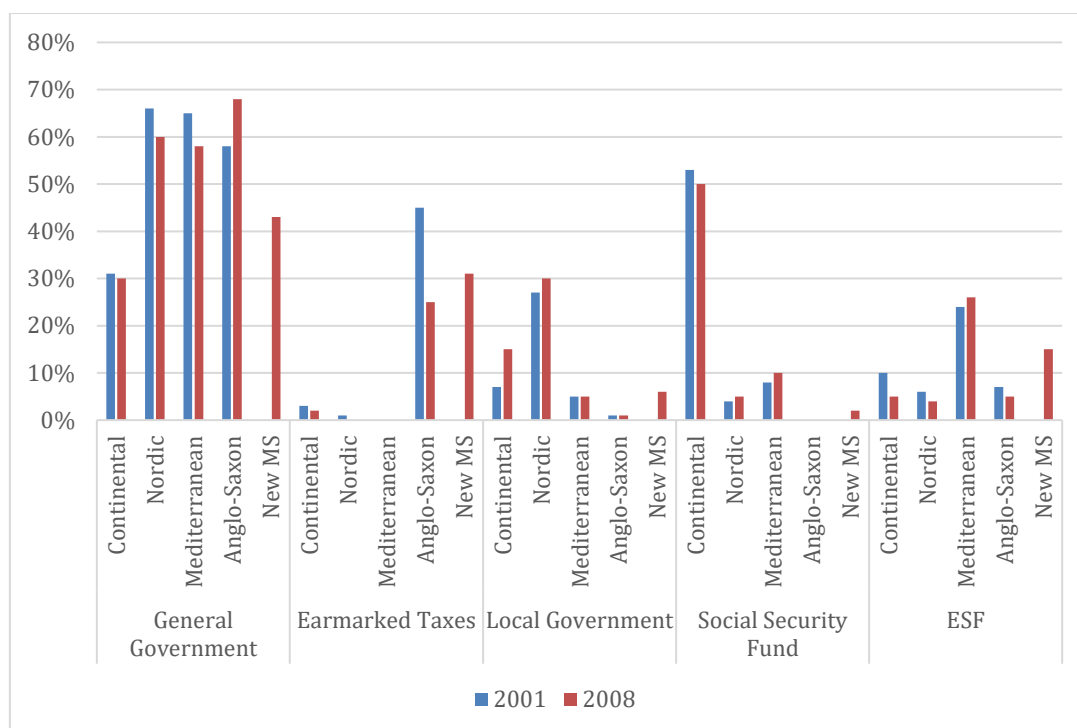
Figure 57: Funding of labour market policies: active versus passive



Source: Analysis of costs and benefits of active compared to passive measures, Final report.

Observed by country groups (**Figure 58**), the general government financing is evidently dominant, except for continental countries, whereby social security funds have dominant role. In the Anglo-Saxon countries and the new member states, approximately 60% of all funds are secured through general taxes and another 30% through earmarked taxes. Therefore, in these two groups, ALMPs are almost exclusively funded through the taxation system.

Figure 58: Shares of funding of active labour market policies in various country groups



Source: Analysis of costs and benefits of active compared to passive measures, Final report.

The combinations of funding sources may sometimes vary depending on the specific policy area. For example, the funding for job placement and ALMP shows more or less similar patterns. However, for a number of countries, there are some differences in the funding patterns. For example, Austria uses regional and local public funding for ALMP, but not for job placement. A special case is administration and management of unemployment benefits, for which public employment services are responsible in only a small group of 25 countries among the survey sample.

Table 36 presents detailed data on the distribution of the operational budget of the PES by the type of programmes. It shows large differences between countries in the relative importance of the programmes which probably reflects the priorities of the employment policy and of the PES.

Table 36: Budget Shares of Programme Types in Percent of Operational Budget

	Job placements	LMI	ALMP	Unemployment benefits	Other benefits	Labour migration	Other measures	Total
Germany	0	0	27	50	0	0	23	100
Belgium-Forem	1	0	99	-	-	0	-	100
Netherlands	2	1	2	27	68	0	-	100
Hungary	6	3	75	15	-	1	-	100
Turkey	8	8	79	5	-	-	-	100
Albania	20	3	7	66	1	2	1	100
Denmark	20	5	30	15	20	5	5	100
Switzerland	36	3	45	15	-	1	-	100
Belgium-VDAB	60	14	16	-	6	3	1	100

Source: Extract from WAPES, 2015, focusing on European countries included in the report.

There is a number PES that spend most of the budget on ALMPs, while others focus their spending on job placement.¹⁵ Clearly, some PES focus almost exclusively on the ALMPs (for instance, Belgium Turkey and Hungary) whereas others spend most resources on benefits (Netherlands and Albania).

5.5.3. The Western Balkan experience

There are large differences in the pattern of financing of employment policies in the Western Balkans. For example, in Albania and Kosovo, the existing labour market measures are solely financed through the state budget (tax financing), while in Montenegro and Bosnia-Herzegovina solely financed through the social security contributions (insurance-based financing). In Serbia and Republic of North Macedonia, the insurance-based financing dominates, but there are other sources with smaller share, including the tax financing. Moreover, the financing of the ALMPs is also related to the association stage to the EU, so that the candidate countries have access to IPA funds which. Among others, are used for financing ALMMs.

Table 37 presents aspects of financing of the current schemes of labour market measures in the six countries of the Western Balkans. Data for the region are incomplete and not readily available. Still, the table shows that Montenegro and Serbia spend considerable share of their budget on passive measures (51% and 75%, respectively), whereas Albania and the Federation of Bosnian and Herzegovina focus relatively more on active measures (around 30% of total budget). Kosovo is a special example given that in the WB region only Kosovo does not provide an unemployment benefit.

Table 37: Labour market policy financing aspects

Financing aspect	Kosovo	AL	BA-FBiH	BA-RS	ME	RS	MK
Compiles its own budget needs	x	√	√	√	x	√	√
Virement between headings possible	x	√	√	√	x	x	√
Proportion of total budget on passive measures (% 2015)	N/A	59	n/a	n/a	51	75	88*
Proportion of total budget on active measures (% 2015)	63	29	30	n/a	15	14	*
Proportion of total budget on staff and running costs (% 2015)	37	12	n/a	n/a	34	10	12

Notes: N/A = Not Applicable; n/a = not available; *A total of 88% of the budget was spent on passive and active measures combined.

Source: RCC, Performance Management Questionnaire

5.6. Kosovo policy options for Employment Fund

The analysis presented in the previous sections can support us in proposing options for reforms of the employment policy system of Kosovo and establishment of an Employment Fund.

5.6.1. Institutional arrangement

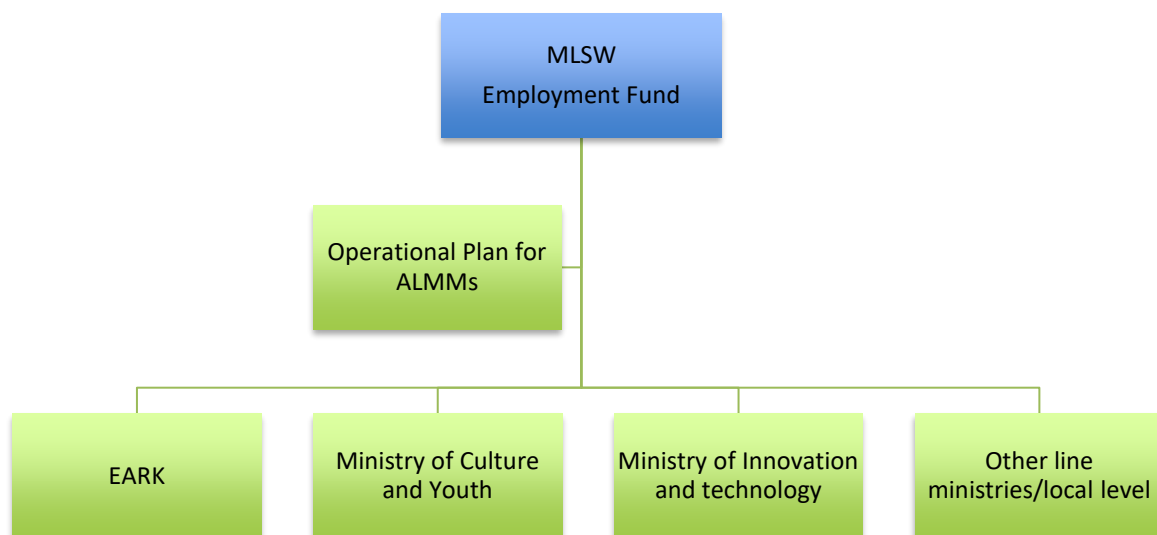
The experience around the Western Balkan countries, Europe and the world shows that the active labour market measures (ALMMs) are most frequently run by the PES, with few exceptions where

¹⁵ Although it is difficult to make distinction between job placements and ALMPs and in most cases the first one will be part of the second one.

ministry of labour is tasked to perform the regular activities of a PES, or where PES is a separate, legal entity directly reporting to the Government. Indeed, Kosovo has recently embarked on a reform and has established the Employment Agency of Kosovo (EAK) which resembles in organization and tasks a modern PES. On the other hand, the financing of the employment policies within the Western Balkan countries, Europe and most of the world is almost exclusively done through the ministries in charge of labour issues. Hence, we propose that **the Employment Fund is initially set within the Ministry of Labour and Social Welfare (MLSW)**. The Ministry already has a Department of Labour and Employment, which could easily set the Employment Fund as its unit composed of three persons, at least at the outset (as we argue below, on medium-run the Unit should also undertake a role of monitoring and evaluation-M&E of active measures). **The initial financial burden for setting up of the fund, in terms of staffing and organization will be negligible**, i.e. the wages of the three employees. However, the establishment of the Fund is expected to bring much larger benefits on medium- to long-run for the authorities and Kosovo in general.

The term Employment Fund actually encompasses two things. First, we refer to an organisational unit, i.e. Unit within the MLSW. We argue for this option as the Fund has to be set at the policy-making level (i.e. strategic planning level) to fulfil its objectives. Second, the Employment Fund also refers to a financial fund or monetary allocations which will also be part of the budget of the MLSW (as a separate budget line). This financial fund should streamline all expenditures for the active measures, both institutional ones and the donor support.

Figure 59: Organisation of the Employment Fund



5.6.2. Planning and use of the funds

I. Short-term tasks of the Employment Fund

Figure 59 shows a graphical presentation of the organisation of the Employment Fund within the overall policymaking and policy implementation). The Employment Fund could immediately undertake

a role of a single focal point responsible for the coordination and financing of ALMPs. The Fund, at this stage, is expected to act as a tendering and contracting authority for ALMPs (and potentially for employment policies in a broader sense), as well as providing monitoring and supervision of the ALMPs execution.

In particular, as a *first step* (in 2018), the Employment Fund unit within the MLSW should conduct:

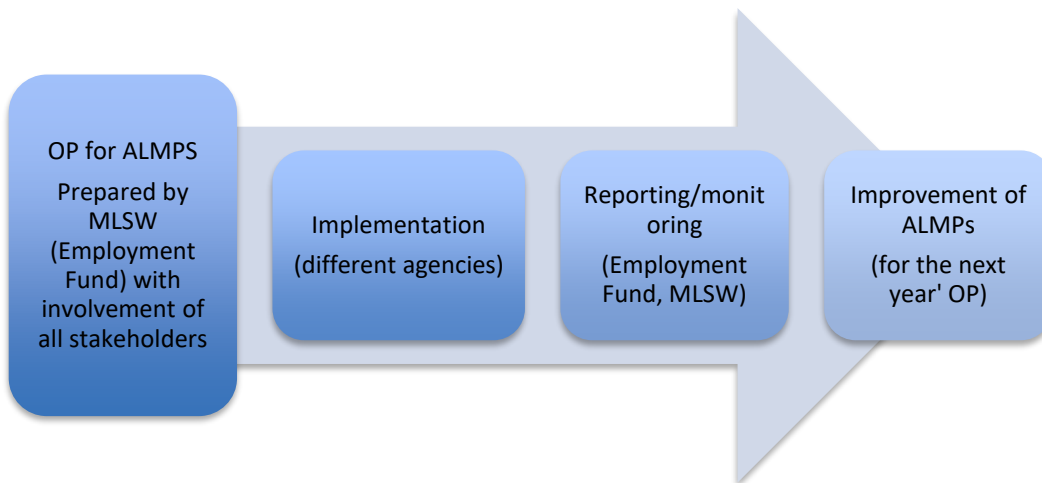
- i) an assessment of the ALMMs conducted by each ministry/institution, in terms of the type and the size of budget funding, with the objective to obtain a clear assessment of the budgetary expenditure on this, as well to resolve gaps and duplications;
- ii) an assessment about the size of the donor support of ALMMs and of employment policies in a broader sense, so as to reconcile such donor efforts with the efforts of the Kosovo Authorities', again resolving any gaps and duplications; and
- iii) an assessment of the possibility that increasing part of these funds (public expenditures and the donor support) are channelled through the fund (i.e. the MLSW).

Once these assessments have been conducted, the Authorities (MLSW) will have a precise information of the spending on ALMMs (from all institutions and all donors).

The *second step* of the Fund should be to prioritize the use of the available funds. This will be done based on the National Employment Strategy 2017-2021. The priorities for the ALMPs will then be transposed into an Operational Plan for Active Labour Market Policies (OP ALMPs). The Operational Plan is an annual detailed plan of the active measures to be implemented, including services to the jobseekers and employers. The plan will be prepared each year at the latest by December in the current year for the next year. The preparation of the Operational Plan will increase the certainty in the employment policy planning, transparency and will improve the coordination and effectiveness of the use of the funds. In addition, it follows the planning process of ALMPs among the EU and candidate countries. The OP should be an umbrella plan of all ALMPs to be implemented by different institutions (the most important one being EARK), but also those implemented by the donors directly. It should by no means include only ALMPs implemented by the EARK. This change is very important as to improve the use of the Funds towards the priorities of the Strategy, but also for the transparency of the policymaking and institutional spending.

The overall process of the planning, implementation and monitoring is presented in Figure 60.

Figure 60: Process of planning, implementation and monitoring of ALMPs



At the end of each year, the Employment Fund Unit (MLSW) will prepare annual information on the implementation of the OP that will be discussed on a institutional session. In addition, the Unit will be responsible for the reporting for the IPA funds used for the employment policy.

II. Medium- to long-term tasks of the Employment Fund

There are three additional important issues to be debated and decided by the Kosovo Authorities:

First, on long-run, the Authorities should consider **streamlining the implementation of all ALMMs in EARK**. In particular, there can be a strong learning curve for the EARK in implementation of the active measures which can lead to effectiveness gains in the medium-run. Given that currently some other institutions are implementing some active measures, it is highly advisable that the programmes are integrated and administered by one agency, and the EARK is the best place to do so. This cannot be done on short to medium-run as the capacity and staffing of the EARK is still limited. Besides the likely improvement of the cost-effectiveness of the active measures, this change can also improve the efficiency of the ALMMs.

Second, in the medium- to long-run the Employment Fund' Unit will expand its activities (and employ two additional employees). In particular, it will start conducting performance measurement of the ALMPs with proposals as how to improve the measures. A very important precondition for this is to develop a good IT system of the active measures. While currently, the EARK has a very good information system in place, this has to be also done for the active measures implemented by the other agencies. In case the Kosovo Authorities agree to streamline all ALMPs into the EARK, then it will save on developing such system. The Kosovo Authorities will also implement impact evaluation of ALMPs every three years with a support of the international donors (as the impact evaluations are very costly).

Third, the authorities (the MLSW) should start a process of **reform of the social assistance system** which currently presents a large fiscal burden, but also supports inactivity of the recipients. The reform should be towards activation of the recipients who are work-abled and their integration into the labour market. Special active measures (for instance, wage subsidies schemes should be organized for those workers). This will transfer some of the funds currently spent on social programmes to active measures (neutral effect on institutional balances but change in the structure of the funds and policies).

5.6.3. Planning and use of the funds

As we previously argued, it is not possible at this stage to collect a precise information on overall spending on ALMPs. Hence, the discussion below is mainly based on the spending of the MLSW (the EARK), which is at about EUR 2 million per year. To that we add the estimated spending by other institutions, hence having a goal to collect (i.e. to finance) approximately EUR 4.5 million in 2018, etc. These funds will be only part of the overall finances of the Employment Fund (adding the donor support).

Based on the experience of the other countries in the Western Balkan (countries of similar development and institutional context), as well as the EU countries (which resemble the future of Kosovo), the following considerations in designing the funding structure of the Employment Fund of Kosovo should be taken into account:

I. Structured channelling of donor support and current budget allocations. Based on the discussion in the previous paragraphs, the initial preparatory phase of the Employment Fund should result in preparing a detailed calculation of the current funds spent on ALMMs, based on: i) budget funds spent by each ministry/institution on ALMMs; and ii) donor support, part of which is expected to start to be managed through the Employment Fund. By having such initial (short-run) financing option, **the Employment Fund could start immediately as a single focal point responsible for the coordination and financing of ALMMs**, i.e. as being a single budget line of the MLSP.

Over time, the share of own budget spent on ALMMs should increase, as the donor support may follow an unpredictable pattern. A large IPA II funding allocation has been made for the employment and education policy (at EUR 94.2 million for the period 2014-2020), however as the Kosovo Strategy Paper 2014-2020 points out, the EC will require strong institutional commitment (in terms of national funds) to match the allocated IPA funds. Hence, in the long-run, **the Kosovo Authorities should secure stable own sources of funding of ALMMs**, which will coexist with the donor support (including IPA funds) on this matter. Hence, while seeking for political will, the Kosovo Authorities may choose between the following two options:

II. Introducing stable general tax financing. While presently ALMMs are financed through the general budget, the medium-term objective would be to ensure stable and certain general-tax funding. This implies establishing a rule for the share of overall budget (or from the revenues collected from given tax) that should be spent on ALMPs, the so-called earmarked funds. In this option, **we propose that 1.7% of the direct taxes** (personal income tax and profit tax) are earmarked for the financing of the Employment Fund (see Annex 3 for detailed calculations). In absolute terms, the ALMMs funds secured this way will increase as the economy grows, securing the minimum sufficient fund for enlargement of ALMMs both in terms of size and types. Detailed calculations on this option are also presented in Annex 2.

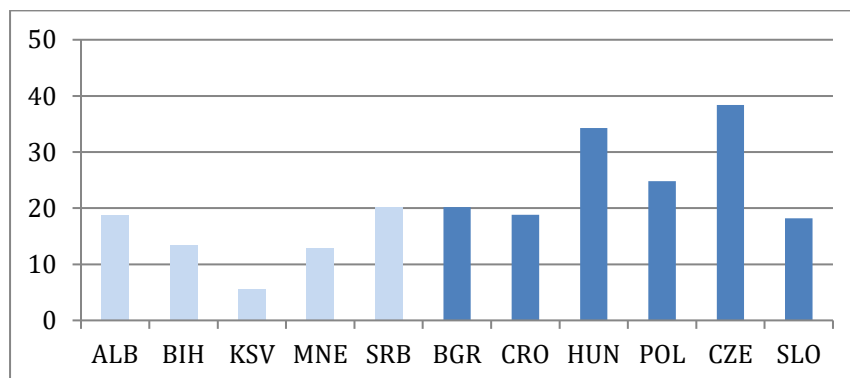
III. Introduction of an unemployment insurance contribution. Mandatory unemployment insurance contributions appear to be a fairly standard option for financing of ALMMs across the Europe and world, as well quite stable and robust source of sustainability of the Employment Fund. The same is true for the all the Western Balkan region countries which have mandatory unemployment insurance contributions. The calculations suggest that a **small share of 0.2% of the gross wage paid by employers will secure the initially sufficient money for financing of ALMMs**. The main argument here

is that the labour taxes in Kosovo are very low in comparison with the WB countries and the EU countries. While the tax wedge should be kept at a low level (as high tax wedge may discourage employment), it is at very low levels which are harmful for the social security of workers. So, it actually may promote informal work, as there are no specific benefits that formal employment brings. We also have to keep in mind that in the opposite case, i.e. high tax wedge, workers and firms may substitute formal for informal employment. Therefore, seeking the optimal burden for employers while providing motivation for formal employment on the side of workers, will provide the answer of the unemployment insurance rate that may be enacted in Kosovo.

The argument can be proven through

Figure 61 which shows comparative data for the share of labour taxes and contributions in total commercial profits. This can be used as a measure of the labour burden onto employers. As the data show, this burden on employers in terms of the labour costs is quite low in Kosovo compared to any of the countries in the region and the new member states. This implies that there is a room to increase the labour taxes without hurting employers.

Figure 61: Labour tax and contributions (% of commercial profits)



Source: World Bank, *Doing Business* project (<http://www.doingbusiness.org/>).

Annex 3 presents calculations based on the available data. It shows that a small contribution rate of 0.2% paid by the employers (on behalf of workers) will ensure sufficient and sustainable resources for funding of the Employment Fund, at least at the beginning. Then, as financing needs of the current ALMPs increase, and as new ALMPs are potentially added in the portfolio, the percentage may increase to reach levels common for the neighbouring countries (**Table 38**).

Table 38: Unemployment insurance rates in the neighbouring countries

	Paid by employer	Paid by employee	Total
Albania	0.0%	0.0%	0.9%
Bosnia-Herzegovina	0.5%	1.5%	2.0%
Bulgaria	0.6%	0.4%	1.0%
Croatia	1.7%	0.0%	1.7%
Republic of North Macedonia	0.0%	1.2%	1.2%

Montenegro	0.5%	0.5%	1.0%
Romania	0.5%	0.5%	1.0%
Serbia	0.8%	0.8%	1.5%
<i>Source: KPMG Worldwide Tax Summaries.</i>			
<i>Note: Data for Albania are from own sources.</i>			

Spending on ALMPs, by type of programme. The comparative analyses (with the WB and EU countries) showed that Kosovo spends comparatively large resources on labour market services and on training, on detriment of the employment generation programmes such as the employment creation, start-up incentives and apprenticeship. Such distribution of the spending reduces the effectiveness of the active programmes in terms of getting the participants into jobs.

Monitoring and evaluation: The Employment Fund may rely on the very good EMIS system in place with EARK, which should allow quality monitoring and evaluation (M&E) of the ALMMs. Relying on existing M&E system will secure economy of scale, i.e. that the cost for the establishment of the Employment fund is not further amplified at the beginning.

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ANNEX 1 - LIST OF MEETINGS HELD WITH REPRESENTATIVES OF KOSOVO AUTHORITIES

Institution	Person	Date
Ministry of Education, Science and Technology	Ms. Qamile Sinanaj	09.08.2017
MEST	Ms. Valbona Fetiu Mjeku	09.08.2017
MEST	Mr. Burim Gashi	18.08.2017
MEST	Mr. Fehmi Hysenaj	27.09.2017
Ministry of Labour and Social Welfare (MLSW)	Mr. Ylber Aliu	06.11.2017
Employment Agency of Kosovo (EAK)	Mr. Muhamet Klinaku	06.11.2017
Ministry of Labour and Social Welfare (MLSW) Statistics	Shpetim Kalludra	06.11.2017
USAID	Mr. Besart Myderrizi, USAID advisor to MOF	13.11.2017
MLSW	Mr. Skender Recica, Minister and Mr. Mentor Tershnjaku, Adviser to the Minister	13.11.2017
Ministry of Finance	Mr. Behxhet Haliti, director of Economic and Public Policy Department	13.11.2017
Ministry of Finance	Mr. Salvador Elmazi, Director of Budget Department	24.11.2017
Prime Minister's Office	Ms. Valdete Bajrami	30.11.2017

ANNEX 2 – DESCRIPTION OF KEY LABOUR MARKET LEGISLATION

The Labour Law: Approved in November 2010, it is considered the most important piece of labour legislation (Kosovo Assembly, 2010). It regulates all rights and obligations deriving from employment relationships between employees and employers in the private and public sector in Kosovo. However, implementation remains a challenge, especially Article 49 on Maternity Leave⁷, trying to balance the private and professional life for women and men employees, particularly in the private sector. Studies in the first six months of its implementation and anecdotal reports have shown a negative impact as an unintended consequence of the law, with employers unwilling to assume the costs of providing mandated partial-salary benefits to female employees who remain at home for up to one year following the birth of a child (GAP, 2011). This result either in a reluctance to hire women of child-bearing age, a termination of their employment before such benefits are warranted, or pushing women into informal employment where such benefits are not provided. Women are entitled to payment for the period of 9 months: the first 6 months of 70% of basic salary will be paid by the employer, the following 3 months of 50% of average salary will be paid by authorities, and a final 3 months without payment.

Law for Registration and Records of Unemployed and Jobseekers: Adopted on 2012, this law aims to establish procedures and conditions of (de)registration of (un)employed and jobseekers at the Public Employment Offices (PEO) (Kosovo Assembly, 2012).

Law on Vocational Ability, Education and Employment of Persons with Disabilities: Approved in 2008, this law aims to regulate the conditions and ways to provide vocational training and employment for PWDs (Kosovo Assembly, 2008). In 2010, the Ministry of Education, Science and Technology (MEST) developed the Strategy for Integration of Children with Special Needs in the Kosovo Pre-University System 2010-2015. This document was fully integrated in KESP 2011-16 and, to a large extent, implemented in practice. In fact, the MEST Special Needs programme described in Section 4.2 has been based on this strategic document.

Regulation on Active Labour Market Programmes (ALMP): Issued by MLSW in 2012, it determines the ALMP for unemployed and jobseeker, competences of central and local institutions, and benefits and obligations for the jobseeker (MSLW, 2012).

Law on Employment Agency of Kosovo: Was approved in 2013, to establish the Employment Agency of Kosovo as the public provider of services in the labour market. It aims to manage and implement the employment, labour market and vocational training policies (Kosovo Assembly, 2013).

Law on Youth Participation and Empowerment: Approved in 2009, the law aims to promote youth participation in decision-making processes and improve the quality of life and social status for youth. (Kosovo Assembly, 2009). With the Administrative Instruction No. 10/2010, the law regulates the volunteer work of young people, indicating that volunteer work shall be acknowledged. undertaking affirmative measures such as introducing quota⁸ to eliminate barriers and all forms of gender discrimination (Kosovo Assembly, 2004). The more recent amendments to the law have to be adopted by March 2015.

The Law on Gender Equality: Approved in 2004, the Law on Gender Equality aims to create conditions for ensuring gender equality.

ANNEX 3 – BACKGROUND CALCULATIONS FOR THE OPTIONS FOR FINANCING OF THE EMPLOYMENT FUND

	2012	2013	2014	2015	2016	2017f	2018f	2019f	2020f	REMARKS
Employed 15-64 (thousands)	303	338	324	297	332	340	345	350	353	Forecasts based on RSS forecasting of employment
Forecasted GDP growth					3.4%	3.5%	3.5%	3.6%	3.7%	Forecasts based on WEO
Average net wage (annual)	4,056	4,188	4,224	5,076	5,604	5,800	6,003	6,219	6,450	
Labour tax wedge	10%	10%	10%	10%	10%	10%	10%	10%	10%	Click for source , p.13
Average gross wage (annual)	4,507	4,653	4,693	5,640	6,227	6,444	6,670	6,910	7,166	
Compensation of employees (millions)	1,365	1,575	1,518	1,675	2,066	2,190	2,299	2,417	2,528	
Gross firm VA (millions)	3,694	3,752	4,049	4,132	3,995					
GDP (millions)	5,059	5,327	5,567	5,807	6,061					
Revenues from direct taxes (millions)		174	188	198	234	242	251	260	269	Revenues are forecast to grow with the rate of the economy
Spending on ALMPs (millions)		2.3	2.6	3.4	3.9	4.2	4.5	4.8	5.2	Spending on ALMPs are assumed to increase 7% each year
Unemployment insurance rate (spending on ALMPs in total compensation of employees)		0.14%	0.17%	0.21%	0.19%	0.19%	0.20%	0.20%	0.20%	This would imply that the unemployment contribution rate should be set to 0.2% of the gross wage to secure funding of ALMPs
Earmarked tax rate (spending on ALMPs in total direct tax revenue)		1.3%	1.4%	1.7%	1.7%	1.7%	1.8%	1.9%	1.9%	This would imply that 1.9% of the collected direct taxes (PIT and profit tax) will need to be earmarked to fund ALMPs

